



## Doing Business in Russia: 2012 Country

### Commercial Guide for U.S. Companies

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## Chapter 1: Doing Business in Russia

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### Market Overview

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- With over 140 million consumers, a growing middle class, and almost unlimited infrastructure needs, Russia remains one of the most promising markets for U.S. exporters.
- Russia is the world's 11<sup>th</sup> largest economy by nominal GDP, 6<sup>th</sup> largest by PPP and has the highest per capita GDP (\$13,236) of the BRIC countries. It is an upper middle income country, with a highly educated workforce and sophisticated, discerning consumers.
- Russia's economy is still recovering from the economic crisis that started in 2008, with GDP growth at 4.3% for 2011. Economists forecast real GDP growth of 3.3% – 3.5% in 2012.
- Russia was the U.S.'s 31<sup>st</sup> largest export market and the 14<sup>th</sup> largest exporter to the U.S. in 2011. Russia accounted for 1.16% of total U.S. trade, making it our 20<sup>th</sup> largest trading partner overall. U.S. exports to Russia were \$8.3 billion, the highest since 2008, and a 39% increase from 2010. This is more than double the growth rate for overall U.S. exports worldwide which were up only 16%. Russian exports to the U.S. were \$35 billion, up 21% from 2010. Russian sources list the country's leading trade partners as: Netherlands, China, Germany, Italy, Ukraine and Turkey.
- U.S. accumulated investment in Russia is approximately \$10 billion. According to Russian data, the U.S. is Russia's 10<sup>th</sup> largest foreign investor.
- Russia was formally invited to join the WTO on December 16, 2011, and accession should be finalized by August 2012. This will liberalize trade with the rest of the world and create opportunities for U.S. exports and investments. For industrial and consumer goods, Russia's average bound tariff rate will decline from almost 10% to under 8%.
  - U.S. manufacturers and exporters will have more certain and predictable market access as a result of Russia's commitment not to raise tariffs on any products above the negotiated rates.
  - More liberal treatment for service exports and service providers.
  - Stronger Commitments for Protection and enforcement of IPR.
  - Rules-based treatment of Agricultural exports.
  - Market access under country-specific tariff-rate quotas.
  - Improved transparency in trade-related rule-making.
  - More effective WTO dispute resolution mechanisms

## Market Challenges

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- Russia is a geographically vast market, spanning nine time zones and encompassing over 17 million square miles.
- Seriously underdeveloped infrastructure poses logistical challenges, especially in accessing markets outside of major cities.
- An incomplete transition from central planning has led to an insufficiently integrated economy and disparities in wealth distribution, geographically and demographically.
- Conducting business may be impeded by: burdensome regulatory regimes; inadequate IPR protection and enforcement; extensive corruption and inadequate rule of law; inconsistent application of laws and regulations; lack of transparency; and the continued presence of large state-owned or controlled enterprises in strategic sectors of the economy.
- Recent reforms make it easier for companies to hire expatriate employees, but the Russian immigration and visa system requires time and patience for business travelers to obtain necessary permissions to do business in Russia.
- English is not widely spoken, although knowledge of the language is expanding, especially in the major cities.

## Market Opportunities

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In alphabetical order:

- Agricultural Equipment
- Apparel
- Automotive Parts and Service Equipment / Accessories
- Aviation
- Chemicals / Plastics
- Construction
- Consumer Electronics
- Electric Power Generation & Transmission Equipment
- Energy Efficiency / Green build
- Medical Equipment
- Refinery Equipment
- Safety and Security Equipment
- Travel and Tourism to the U.S.

## Market Entry Strategy

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- Developing business in Russia is resource intensive, requiring serious commitments of time, personnel and capital.
- Conduct market research, such as with the U.S. Commercial Service's Gold Key or International Partner Search services, to identify opportunities and potential Russian business partners.
- Conduct due diligence, such as with the U.S. Commercial Service's International Company Profile service, to ascertain the reliability of business partners.

- Consult with U.S. companies already in the market, as well as with the U.S. Commercial Service and business organizations, such as the American Chamber of Commerce and U.S. - Russia Business Council.
- Communicate regularly with Russian business partners to ensure common understanding of expectations.
- Frequent travel to Russia is strongly recommended to establish and maintain relationships with partners and to understand changing market conditions.
- Maintain a long-term timeframe to implement plans and achieve positive results.

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## **Chapter 2: Political and Economic Environment**

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/3183.htm>

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## Chapter 3: Selling U.S. Products and Services

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### Using an Agent or Distributor

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Encompassing nine time zones, Russia is the largest country in the world by landmass. Therefore, many businesses tend to approach the Russian market on a regional basis. Most new entrants start in Moscow and then move into the regions either through an existing distributor or by seeking new distributors in those locales. As both Moscow and St. Petersburg are major population and business centers, many Western firms have representatives there. Some companies have successfully entered the Russian market by starting distribution in other key regions first because of market features and industry sector concentrations (e.g., woodworking in northwest Russia, energy projects in Sakhalin and western Siberia) and then expanding elsewhere. Well-organized distribution channels are established in western Russia, especially in Moscow and St. Petersburg, and continue to develop rapidly in southern Russia, the Volga region, Urals, Siberia and Russian Far East. To succeed in Russia, it is important to choose sales targets and distributors carefully.

### **U.S. companies have four basic options when choosing a distribution channel:**

#### **1) Agents**

It is not a common practice in Russia for foreign companies to rely solely upon the services of an agent. Distributors and representative offices, however, often employ agents in the Russian regions in order to promote their products.

#### **2) Distributors**

The most common market entry strategy is to select a good distributor or several distributors (depending on the product). U.S. companies can consider a variety of national, regional and local distribution alternatives. In some product categories (e.g.,

apparel, cosmetics, packaged foods, alcoholic beverages, consumer electronics, and household appliances), foreign suppliers can choose from a growing number of established distributors. A good distributor will typically sell and deliver foreign suppliers' products to end-users and/or the retail market and provide a wide range of logistical support, i.e., customs clearance, warehousing, inventory management, etc. However, handling promotion and advertising campaigns exclusively through independent distributors can often produce disappointing results. Russian distributors normally handle products from multiple suppliers and are not typically dedicated to promoting a specific company's product unless the supplier provides substantial support for promotion and advertising. Russia's retail law also limits some types of promotional activities.

### **3) Representative/Branch Offices**

Some foreign manufacturers, in addition to using distributors, have established their own representative offices. The major advantage of opening a representative office is that foreign companies have more direct contact with their end-users and control over the promotion and distribution of their products. However, under the Russian Civil Code, such offices cannot be directly involved in commercial activity. Instead, they typically oversee a network of distributors and/or agents that perform commercial functions. This approach affords greater control by the foreign supplier over the distribution process and helps to reduce risks.

As representative offices may not take part in commercial activities, branch offices have become increasingly more popular. According to a 1999 foreign investment law, foreign companies may engage in commercial activities through their legally established branches. Branches are accredited for five years and must be registered with tax authorities and other state organizations.

Both representative and branch offices can be attractive to foreign businesses wishing to operate in the Russian market because there are fewer tax and other administrative burdens and currency control restrictions may not apply.

### **4) Foreign Subsidiaries**

Some foreign manufacturers, particularly in the cosmetics, pharmaceuticals, consumer appliances, durables and industrial products sectors, have registered their wholly owned subsidiaries in Russia. They then sell directly to their own companies registered in Russia who import for their own account. This approach affords full control of the supplier over distribution and helps to further reduce possible risks from false invoicing and other irregularities sometimes committed by independent importers and distributors. For more information on registering a company in Russia, please refer to the "Establishing an Office" section below.

U.S. exporters are advised to cultivate personal relationships with their Russian representatives and clients, to proceed gradually, and to ensure they have a contingency plan should problems arise. Since it is often difficult to find information on Russian companies, it is strongly recommended that U.S. firms consider using the International Company Profile service to validate potential partners. The U.S. Commercial Service strongly advises against the risky practice of a company representative simply visiting Russia once or twice, selecting a representative, granting exclusive representation, and then moving quickly to consignment or credit sales without first establishing a payment and performance history. In addition, exporters are cautioned to take primary

responsibility for registering their brand names in Russia and not to rely on a partner to do this. Finally, it is important to provide a Russian partner with Russian language product information and marketing materials. These can be prepared in the United States or done jointly with a Russian partner.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the Gold Key Service, Preliminary Market Assessment, International Partner Search, International Company Profile, Customized Market Research, Platinum Key and other products and services. Information about these services can be found at <http://export.gov/russia/servicesforu.s.companies/index.asp>.

## **Establishing an Office**

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The U.S. Commercial Service can provide basic counseling on registration requirements and procedures. However, it is strongly recommended that interested U.S. companies seek legal advice on business registration. U.S. Commercial staff can provide contact information for U.S. and Russian firms that offer professional legal advice in this area.

## **Registration Options**

The following basic laws and government resolutions regulate business registration in Russia:

- The 1999 Federal Law “On Foreign Investment in the Russian Federation”
- The 1994 Part I of the Civil Code
- The 2001 Federal Law “On State Registration of Legal Entities”
- Russian Government Resolution No. 319 “On Authorized Federal Entity of the Executive Power, Providing State Registration of Legal Entities” of May 17, 2002, and a number of legal acts.

Conducting business without registration is illegal. Although the federal law governing the process is uniform throughout Russia, it is often subject to local interpretation.

Russian law offers several commonly used structures to conduct business:

- Representative or branch office of a foreign company
- Registration as an individual private entrepreneur
- Companies:
  - Limited Liability Company (OOO)
  - Privately held, closed joint stock company (ZAO)
  - Publicly held, open joint stock company (OAO)

Branch offices and accredited representative offices are both legally distinct from Russian corporations, which may be established by foreign firms either as joint stock companies with partial Russian ownership, or as wholly owned subsidiaries of a foreign firm. Foreign ownership can be as high as 100%, with some exceptions. For example, foreign investment is limited in industries defined by the “Strategic Sectors Law” (discussed in this chapter under “Joint Ventures/Licensing”).

## **Branch Offices**

Branches are not considered independent legal entities, though they may negotiate, market or provide other business support on behalf of firms based outside Russia.



Setting up a branch may be worthwhile if a foreign company is starting to pursue business in Russia and is exploring opportunities. Many large U.S. firms began their Russian operations as locally established branches.

Branches of foreign firms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Branches will incur the following fees for accreditation: RR 120,000 (State duty) plus RR 15,000 for one year; RR 20,000 for two years; RR 35,000 for three years; and RR 75,000 for five years.

### **Accredited Representative Offices**

Like branches, accredited representative offices are not independent legal entities; they may not be involved in commercial activities. After accreditation is obtained, the office should register with the local or regional registration chambers, located in many Russian cities. Advantages of an accredited office include annual/quarter (rather than monthly) reporting requirements for some activities (including some tax payments), and the ability to issue invitations for U.S. partners to visit Russia on business visas. Up to five foreign employees may work with an accredited office of a foreign company. Offices are usually accredited for one to three year terms.

Accredited representative offices must register with the State Registration Chamber or the Russian Chamber of Commerce and Industry in order to be included in the State Register of Accredited Representative Offices of Foreign Legal Entities in the Russian Federation. Certain specific businesses must register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development, Ministry of Finance, Ministry of Transportation, Ministry of Industry and Trade, Ministry of Energy and others. According to internal procedures, accreditation of a representative office or branch should take 21 business days (for registration with the State Registration Chamber) starting from the day the full set of required documents are provided.

Representative offices will incur the following fees for accreditation: (1) USD 1,500 for one year, USD 2,500 for two years and USD 3,500 for three years for the accreditation with the Russian Chamber of Commerce and Industry plus RR 3,000 payment or (2) RR 35,000 for one year, RR 65,000 for two years and RR 85,000 for three years for the accreditation with the State Registration Chamber. An additional fee of RR 15,000 may be paid for expedited accreditation within seven days.

Further information is available on the State Registration Chamber website at <http://www.palata.ru/en/>.

### **Companies and Taxation**

Companies are required to register with the local Tax Inspectorate (the tax registration will also include registration with the Russian Social Security Funds). Documents for state registration should be prepared and submitted to the local Tax Inspectorate in accordance with Chapter 12 of the August 8, 2001 Federal Law "On State Registration of Legal Entities." An authorized legal entity, the Moscow Department of the Ministry of Finance of the Russian Federation (15, Tulskeya Street, Moscow) provides counseling to business people on registration procedures and registration documents.

Further information on company registration, including the list of documents to be submitted, as well as contact information for local tax authorities can be obtained from the following website: <http://eng.nalog.ru/>.

### **Tax Code**

Major revisions of Russia's tax code took place from 1999 to 2003. The resulting tax legislation more closely matches the needs of a growing market economy, and many of the provisions of previous legislation that distorted the business environment and kept many businesses in the shadow economy have been removed.

The most fundamental changes were reflected in the new chapters of the Tax Code Part II and affected the value added tax, excise taxes, individual income tax and profits tax. Also affected was the Federal Law "On the Introduction of Amendments and Additions to Part II of the Russian Federation Tax Code and to Separate Russian Federation Legislative Acts." These changes aimed at improving Part II of the Russian Tax Code were passed by the Duma and enacted into law in 2003. The ongoing tax reform has further improved procedural rules and reduced the overall tax burden in the country.

Implementing numerous changes in the Russian Tax Code has resulted in some confusion. A general overview of Russian taxes follows, but companies operating in Russia should consult with a professional tax advisor to learn about the latest developments.

### **Profits Tax**

The profits tax is levied on net profits. Effective January 2009, the profit tax rate was reduced from 24% to 20% (18% of this amount is allocated to Regional Russian authorities and 2% to Federal) to address the economic downturn. The regional authorities may, at their discretion, reduce their regional profits tax rate to as low as 13.5%. Thus, the overall tax rate can vary from 15.5% to 20%. Depreciation provisions were improved with the introduction of a 30% initial lump sum depreciation deduction and revision of non-linear depreciation rules. The tax rate was reduced in tandem with the introduction of more realistic interpretations of deductible expenses, the combined effect of which is to significantly reduce the profit tax burden and support the Russian economy during the financial downturn.

The provisions on profit taxation enable foreign companies operating in Russia to benefit from the reduced withholding tax rates and exemptions under Russia's double taxation treaties (the U.S. and Russia have had a double taxation treaty in place since 1992), which in certain cases could result in advantages to U.S. companies. For example, representative offices are permitted to deduct expenses incurred on their behalf by a parent company located abroad.

### **Value Added Tax (VAT) and Import Duties**

VAT is designed as a tax to be borne ultimately by consumers, but is collected on a basis similar to the European Union model. VAT is calculated on sales value and is applied at a uniform rate of 18%, except for certain foodstuffs, pharmaceuticals and children's clothes, which are taxed at 10%. Some products, such as certain financial services and medical equipment, are entirely exempt from VAT. As of January 1, 2008, in an attempt to bolster R&D and investment in technology, intangibles such as inventions, software, industrial designs and production know-how are exempt from the VAT.

Imports are also subject to VAT, calculated based on the customs value of the item plus customs duties and fees. In addition, import duties are assessed at specified rates, ranging from 5% to 30% (as of January 1, 2010, import duty rates for some goods increased with the introduction of the Customs Union between Russia, Belarus and Kazakhstan). They are assessed according to classification and are applied to the customs value of the imported goods, including shipping charges and insurance. Goods imported by foreign partners as in-kind contributions to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents and import VAT under certain conditions (e.g., the goods qualify as technological equipment which has no analogues manufactured in Russia).

In general, goods manufactured or assembled in Russia, whether by a Russian or foreign company, and then exported out of Russia, are not subject to VAT. If these goods are exported before payment is received, then no VAT should be collected. On the other hand, if payment is received before shipment, the exporter must pay the applicable VAT and then request a refund from the tax authorities. Changes in the method of VAT collection for certain entities such as diplomatic missions, effective January 1, 2010, have resulted in some confusion as businesses and government offices make the needed adjustments to the revised system.

### **Social Welfare Taxes**

As of January 1, 2010, the Unified Social Tax was replaced by social security (payroll) contributions to the State Pension Fund, Social Security Fund, Federal Medical Insurance Fund and Territorial Medical Insurance Fund. A business is liable for the entire amount of social security contributions and no amount is withheld from employees. The recent implementation of the change in social welfare taxes has resulted in some confusion, as businesses and government offices make the needed adjustments to the new system.

The social security contributions apply at the aggregate rate of 34% on an employee's annual salary of up to RR 415,000 (the threshold may be adjusted in the future by the Russian Government); the portion of an employee's annual salary in excess of this threshold is exempt from the social security contributions. Social security contributions are payable as follows: 26% to the State Pension Fund, 2.9% to the Social Security Fund, 2.1% to the Federal Medical Insurance Fund, and 3% to the Territorial Medical Insurance Fund. The social security contributions apply to all payments to individuals (including individuals applying a simplified system of taxation) even if made from net income. Importantly, salary or other payments to foreign citizens temporarily present in Russia (i.e., not having a permanent resident permit) are not subject to social security contributions. Social security contributions are paid on a monthly basis and the calculations of the social security contributions are filed with the State Pension Fund and the Social Security Fund on a quarterly basis.

Reduced social security contribution rates apply to certain business categories, including agricultural producers (20.2% in 2011-2012 and 27.1% in 2013-2014), software and high-tech companies (14% in 2011-2017), certain mass media companies (26% in 2011 and 27% in 2012) and companies engaged in special innovation projects (14%).

Workplace accident insurance is paid by the employer in addition to social security contributions. Rates vary from 0.2% to 8.5% depending on the established class of professional risk.

### **Withholding on Dividends, Interest and Royalties**

Foreign legal entities without a business presence in Russia are subject to a withholding tax of 10% on freight services provided in Russia. Dividends are taxed at a rate of 15%, interest and royalties at a rate of 20%. These rates are often reduced pursuant to an applicable relevant double taxation treaty (the U.S.-Russia tax treaty potentially may reduce the dividends rate as low as 5%, depending on whether certain ownership and investment criteria are met, as well as lower the tax on interest and royalties to 0%). Lease payments and other income are subject to a 20% withholding rate.

### **Land, Property and Personal Income Taxes**

Local authorities may impose a tax on land according to its type and location. The rate is higher in Moscow and St. Petersburg than in some other cities and rural areas.

The personal income tax rate for Russian tax residents is a flat 13% imposed on worldwide income (non-residents are taxed at 30% on Russian-source income).

## **Franchising**

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Franchising as a business model only came to Russia in the early 1990s. The first foreign franchises were primarily American and Italian restaurant chains. The Russian Civil Code, specifically in Chapter 54, formally adopted franchise legislation in 1994 where franchising is defined as a “commercial concession.” Since then, the number of franchise operations has steadily grown. While foreign franchises dominated the market for the first decade, a number of Russian retailers, restaurant and drugstore chains began to expand using the franchise model. Currently, there are more Russian than foreign franchise organizations. It is difficult to estimate the number of franchises currently working in Russia because some are registered under other legal forms, such as through licensing agreements or sales contracts. The franchising business model has developed mainly in the restaurant and fast food, retail, and other consumer-service areas. Most franchisers choose to establish partnerships with franchisees in Moscow or St. Petersburg; however, there are several other cities with million-plus populations, which can provide excellent opportunities for expansion.

Several well-known U.S. franchises have successfully entered the Russian market. Among the most visible brands are: AlphaGraphics, Baskin Robbins, Candy Bouquette, Carl's Jr., ChemDry, Chips Away, Crestcom, Domino's Pizza, Fastrackids, Gold's Gym, Jani King, KFC, LMI Consulting, Mail Boxes Etc., Kwik Kopy, Century 21, Office 1 Superstore, Papa John's, Pizza Hut, Pizza di Roma, Sbarro, Subway and Starbucks.

There are still some gaps in Russian franchising legislation, but local franchising entrepreneurs, with the help of the Russian Franchise Association, formed in 1997, are actively working to create a more favorable legal and business environment for the expansion of franchising in Russia, and to support and protect the interests of its members.

According to the Russian Civil Code amendments as of January 1, 2008, the subject matter of the franchising agreement currently includes the rights to use a trademark,

service mark and any other objects of exclusive rights, in particular commercial designation and know-how, which cannot be granted free-of-charge. Also, for a franchising agreement to be valid, it has to be executed in written form and registered with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent).

The Buy Brand International Franchise Exhibition, held annually in Moscow in September, is a good way to make contacts and become acquainted with the market.

## **Direct Marketing**

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Given the relatively underdeveloped state of some distribution channels in Russia, direct marketing has become an effective and profitable alternative, especially outside of Moscow and St. Petersburg. Telemarketing and fax marketing to business customers is common in Russian cities, but it is not particularly effective. Other direct marketing channels (catalogs and e-commerce) are developing quickly.

Direct selling (for example, for health and beauty products) works well and is cost effective for the distributor, since it develops an effective distribution network. For a large number of under-employed workers and pensioners in Russia, the option of supplementing their income through working in direct sales is quite attractive. World Direct Selling Association statistics revealed that direct sales in Russia in 2010 amounted to \$3.13 billion and that almost 4.5 million salespeople Russia-wide were engaged in direct selling.

Leading direct sales companies such as Amway, Avon, Mary Kay and Tupperware are active in Russia. According to Russian law, companies may not use direct sales for such products as biologically active food additives and vitamins. At present, these products can only be sold through pharmacies, kiosks, and health stores. For more information on the direct selling industry in Russia, visit the Russian Direct Selling Association website at: <http://eng.rdsa.ru/>.

## **Joint Ventures/Licensing**

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U.S. companies may become strategic partners with Russian firms by taking an equity position in Russian joint stock companies and thus establishing joint ventures (JV). Establishing a JV in Russia demands meticulous planning and sustained commitment. In most cases, it is advisable for the U.S. partner to retain managerial and voting control. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Experience shows that foreign minority shareholders may face serious difficulty in protecting their interests in Russian courts.

One advantage of a JV is that it helps a U.S. firm gain a measure of Russian identity, which can be useful in a culture where many still view foreigners with suspicion. The May 2008 Strategic Sectors Law identified 42 industry sectors requiring the Russian government's pre-approval of a foreign firm's purchase of controlling interest. Additionally, political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

Russian and U.S. partners often view JVs differently. U.S. companies, especially smaller ones, often view JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital and these managers may place a low priority on local market development. While there are many examples of successful JVs, a U.S. investor invites trouble when it cedes oversight of any aspect of a JV to a Russian partner which does not share the same objectives. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations. Any firm that forms a JV in Russia should be ready to invest the constant personal attention of U.S. managerial staff to keep the business on course, both before and after the venture has achieved commercial success.

U.S. technology is sometimes licensed for Russian production outside the context of a joint venture. Major hurdles that must be overcome include quality levels attainable by Russian facilities in the absence of significant retooling, uncertain intellectual property protection and difficulty in receiving regular and prompt payments. In the opposite direction, Russian companies generally are eager to license their technologies to foreign companies in exchange for the cash infusion.

### **Selling to the Government**

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Government procurement has always been a powerful incentive for the development of the SME sector in Russia. Given the amount of post-Soviet government property, the market for state procurement is quite impressive in value. The term “government procurement” includes all state agencies, ministries, state non-budget funds, state-owned plants and factories, high schools, hospitals, companies operating infrastructural facilities such as Mosvodokanal-company operating the water and sewage system of Moscow or GorMost Company, operating all Moscow bridges, parks and lawns. These entities buy a large range of products from stationary to complex road building or construction equipment, and from food to drugs and medical equipment.

The Ministry for Economic Development (MED) and Treasury are responsible for developing Russian procurement policy. All the legal initiatives are developed by this Ministry and sometimes jointly with Ministry of Industry and Trade; however, MED is always the lead in any joint projects.

On the other hand, it has always been a challenging issue for SMEs to apply and start supplying government agencies or affiliated structures. Until 2005 there was no proper legislation regulating procurement operations, which led to some corrupt practices. Companies close to the management of the state-owned public organizations have often pre-negotiated the results of the tenders leaving no place for fair market competition.

Many companies have encountered the problem that, despite being a major producer of the commodity and offering the best price, they still could not win. It is possible that the commission will find a minor fault in the tender application or its specifications and thus reject the bid and give preference to another bidder.

Russian Federal Law N94-Φ3 of July 21, 2005, requires all federal, regional and municipal government customers to publish all information about government tenders, auctions and other purchase procedures on the Internet. Other laws that regulate



government procurement in Russia are: Federal Law 218-ФЗ, 53-ФЗ, 142-ФЗ, 207-ФЗ, 229-ФЗ (about the e-commerce platform [www.zakuki.gov.ru](http://www.zakuki.gov.ru)), and 94-ФЗ (anti-corruption act for government procurement). The business community as well as many public organizations admits that the law in its existing form allows for much corruption. Therefore, President Medvedev ordered MED to revise the law and apply anti-corruption amendments. On November 11, 2010, the new wording of the law was approved by the State Duma (Russian Parliament). These laws stipulate new government procurement policies and are directed at transforming them into transparent business practices with equal rules and opportunities for all participants. In 2011 the law was revised again, and updated to match large-scale government projects such as preparations for the 2012 APEC Forum that Russia will host in September 2012. The latest edition of the law is dated November 21, 2011.

If a U.S. company considers entering the Russian market and becoming a government supplier it must consider whether its equipment or products compete with any similar goods produced in Russia. Federal law states that the preference should be granted to the local manufacturer. The law also states that in cases where foreign goods outbid the local good for some reason, an additional discount of 10-15% is to be granted by the seller.

The potential for the success of U.S. producers to sell to the government often depends on the U.S. company to identify the right partner in this market. The direct sales model (B2G) does not fit the Russian market first because the government needs the goods that are tendered to be available for a spot deal and this is only possible when the company runs its own operations or has a partner, and second because the bidder must be a Russia-based legal entity. The second key to success is to spot the unique opportunities where Russian companies have no competitive edge or offer solutions that can outbid the local supplier, using either logistical or financial advantages.

The government decree dated December 5, 2008 (№427), states that Russia manufactured goods will enjoy a 15% preference if any foreign manufactured goods are offered for the tender and that, if a company offering foreign goods wins the tender, the contract is to be signed with a 15% discount. This decree is not valid if the sought products or services have no competing analogues in Russia. For these reasons, it is advisable to enter the Russian government procurement market either with a unique portfolio of products or to start operations aimed at launching manufacturing units within Russia.

Federal law 94-ФЗ on government procurement is not valid for natural monopolists such as Gazprom or Russian Railways or Rosneft. However, work is now ongoing to reconsider the current status of procurement policies at these state-owned companies and to make them dependent on federal law to enhance the structure of spending and to cut excessive costs. Such a change in the procurement policies at state-owned corporations will be a step forward toward the elimination of corruption in these companies. The main regulators who consider complaints about companies and agencies infringing on the procurement law are the Federal Antimonopoly Service, MED, and the Ministry of the Interior (when there is a criminal case).

To see the list of tenders, one can enter the government website [www.zakupki.gov.ru](http://www.zakupki.gov.ru), which is available only in the Russian language. State-owned companies like Russian

Railways or Gazprom have English versions of their websites where they also place information on their tenders.

## **Distribution and Sales Channels**

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Well-organized distribution channels have developed significantly over the last few years, particularly in the major population centers, such as Moscow and St. Petersburg, and have begun to expand to the regions. In the consumer sector, some large-scale retail stores have recently emerged in Moscow that are able to buy in bulk and negotiate relatively long-term commitments. Large shopping malls have opened up on the Ring Road circling the capital and are giving the Moscow retail environment more of the characteristics of other European cities. Shopping malls and big box stores are common sights in St. Petersburg, Moscow and many other Russian cities.

By utilizing these domestic distribution organizations, the task of bringing goods to market in Russia has been greatly eased. However, their geographic coverage can be limited, and accessing markets in some of the regions can still be problematic. In these regions, U.S. firms may encounter erratic distribution, unpredictable and tough competition, and word-of-mouth marketing. Although Russia boasts increasing numbers of western-style stores in major cities, much distribution and retailing still takes place through such informal channels as kiosks and open markets. Those who succeed do so through a combination of improvisation and innovation, combined with a substantial investment of time and a tolerance for early mistakes. U.S. companies with a long-term market development strategy may find regional markets well worth exploring.

St. Petersburg remains the main port of entry for a variety of consumer and industrial products for European Russia (Russia west of the Urals). Vladivostok is the main port of entry for the Russian Far East. In general, the transportation infrastructure in this vast country is still underdeveloped and in need of major upgrades. The majority of cargo moves by rail and the road network is in need of expansion. Major western freight forwarders and express couriers are active in Russia.

## **Selling Factors/Techniques**

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As with any country, successfully marketing and selling goods and services in Russia requires adaptation to its commercial climate and business practices. Market research is required to identify opportunities and potential Russian business partners. The choice of a partner is key and should be done only after conducting sufficient due diligence to determine its reputation and reliability. The U.S. Commercial Service has services to assist with market research, identifying partners and conducting due diligence (<http://export.gov/russia/servicesforu.s.companies/index.asp>).

Both before and after launching operations, travel to Russia is strongly recommended to establish and maintain relationships with business partners and to understand market attributes. Marketing in Russia requires patience: exporters should maintain a long-term perspective and not expect immediate results. It can be helpful to network with companies already in the market, as well as business organizations, such as the American Chamber of Commerce in Russia and the U.S.-Russia Business Council.



Business planning should include advertising, market promotion and regular visits to Russia. When recruiting personnel or identifying business partners, local talent should be utilized, especially for government relations, which can be of critical importance, and professional services of all kinds, whether law, accounting or engineering, etc. Absentee management should be avoided; it is important to communicate regularly with Russian business partners to ensure common understanding of expectations. Partners can assist with required testing and certification, after-sales service, customs clearance, warehousing and preparation of Russian-language marketing and instruction materials.

Business should always be conducted in compliance with all Russian laws and regulations (taxes, customs, labor, etc.), as well as applicable U.S. laws and standard business practices, including corporate governance and accounting practices. Companies that undertake corporate social responsibility programs in the U.S. should consider developing a similar approach for the Russian market.

Exporters should avoid selling on open account until they have developed a well-established track record with buyers; letters of credit and other secure financing vehicles are available. Another option may be U.S. government or multilateral development bank financing, such as the U.S. Export-Import Bank (Ex-Im Bank), the U.S. Overseas Private Investment Corporation (OPIC) or the European Bank for Reconstruction and Development (EBRD). (See Chapters 6 and 7 for more information on these financing mechanisms.) Exporters should be prepared to adjust prices according to currency fluctuations.

Russian purchasers are generally sophisticated and highly educated. They are likely to be Internet users and receptive to imported goods. Russian purchasers may be price sensitive, but are frequently willing to pay for quality, especially for recognized and reliable imported brands – another reason to invest in advertising.

## **Electronic Commerce**

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E-commerce in Russia represents an unprecedented growth opportunity. The number of Internet users in Russia reached 60 million by the end of 2011. In September 2011, Russia, with 50.8 million unique visitors, overtook Germany with 50.1 million unique visitors, France (42.3 million) and the U.K. (37.2 million), making it not only the largest but also the fastest growing market in Europe. Future growth in Internet usage is expected to be significant. According to the FaberNover agency, the Russian Internet audience is forecasted to reach 70 million visitors in 2014. Strong growth is fuelled mainly by regional users as well as by certain population categories (e.g., young users, 40+ women, etc).

According to the Public Opinion Foundation (FOM), the Russian e-commerce market amounted to \$10.4 billion in 2011, an increase of 30% over 2010 according to media reports — as leading e-commerce websites like Avito.ru saw huge increases in users and turnover.

With the seventh-largest Internet audience in the world, Russian companies are capitalizing on this explosive growth. For example, Ozon.ru, the Amazon.com and Expedia of Russia, has enjoyed a 34% increase in revenue growth from 2010 – 2011, bringing in \$150 million in returns. After closing out on a record-breaking fundraiser of

\$100 million in September 2011, the company now pulls in over \$1 million in revenue per day, keeping them well on track to reach \$1 billion annual turnover in the next 3-5 years. However, for the continent's most populous country, 60 million Internet users represents penetration of less than 43%. According to ITU, Internet penetration in Russia is only 42.8%, compared with 79.9% in Germany, 69.5% in France and 82.0% in the U.K. The number of people that use mobile Internet has also increased - about 21 million users visit web sites via smart phones or tablet PCs.

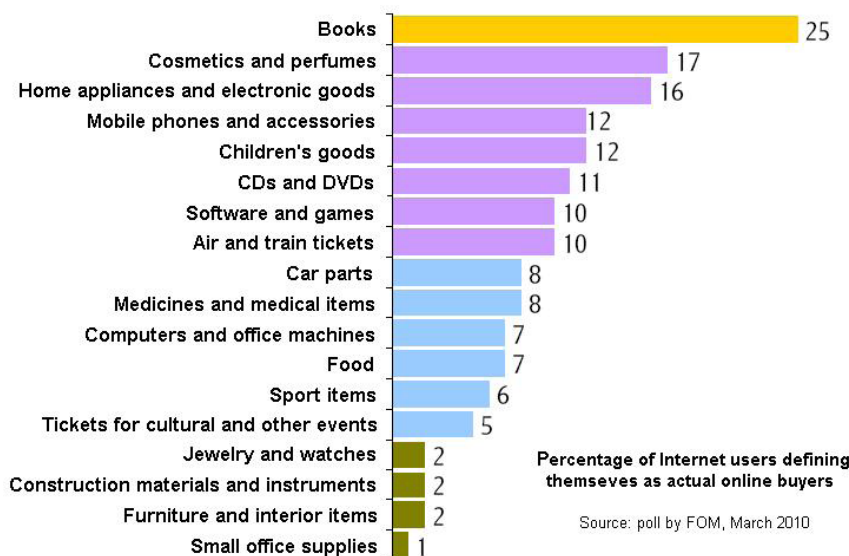
However, distribution of the Internet audience in Russia is rather concentrated. Over 75% of Internet users are consolidated in the European part of the country. Moscow and St. Petersburg were the most important areas for B2C e-commerce in Russia, accounting for approximately 60% of total online sales. Utkonos.ru, Ozon.ru, KupiVIP and Holodilnik.ru are leading B2C e-commerce players.

A PwC survey of 2,000 Russian online users found 92% of them shop at least occasionally on the web, up from 80% in 2009. However, really active purchasers, those who buy items through e-commerce sites on a regular basis, represent a more modest proportion: perhaps 15% of Russian Internet users (7 million people) buy on a monthly basis. Only 12% purchase every week compared to 28% in Britain.

The online retail market makes up less than 1% of the total retail market. This is incredibly small when you compare it to the UK e-commerce market – which takes up 7% of the total UK retail market. However, this is changing and Russia is finally reaching the point where e-retail is becoming an accepted form of shopping. While it remains true that only a slight percentage of Russian monthly Internet users make purchases online today, the future of online retail is clearly set to explode. Some experts say this is a market that offers boundless growth opportunity parallel to that of the U.S. market in the early 2000's.

Russian Internet users shop online for household appliances, books, mobile phones and computers, but online deals for clothes and footwear, video and audio products, online travel and entertainment bookings are showing the fastest growth.

#### Most demanded goods in the Russian e-commerce



Russian online shopping growth is being held back by poor infrastructure and slow delivery times forcing retailers to spend more before they reap any benefit of rising Internet use. Russian retailers often cite a lack of modern infrastructure as a major constraint to expansion in the provinces, where lower penetration of organized retail and rising disposable incomes underscore the potential for rapid sales growth. Traditional retailers, such as food chain X5 and electronics specialist M.video, have the advantage of a physical presence in the provinces after developing their own logistics and warehouse infrastructure.

Russian online groups Yandex and Mail.Ru raised nearly \$2.5 billion between them in the two biggest Russian IPOs of the last 12 months.

Payment mechanisms are developing quickly and offer a wide range of payment methods - SMS, credit card, payment aggregators, web-money and cash payments. Cash on delivery represents the main payment means for such leading e-commerce sites as KupiVIP.ru and Ozon.ru. Banking cards are used, on average, for 20% of online purchases but are widely used in certain segments or products (e.g., train or plane tickets). As the number of consumers with credit cards who are willing to use them online is constantly increasing, banks have begun offering various e-commerce payment products. Sales through these channels are sustaining current rapid growth. According to some estimates, the number of online shops in the Russian market reaches 37,000.

Although at first glance Russia has plenty of payment means, many problems are left unresolved:

- Users still lack trust. This is why banking cards are used infrequently for online payments and C.O.D. is widely used in e-commerce. The lack of trust can also affect SMS payments due to a number of swindling offers.
- Alternative solutions for online payments complicate user experience. Using electronic currencies requires several, sometimes uneasy, steps. Offline terminals are user friendly but interrupt the online buying experience.
- Users and/or merchants are often charged with significant fees. Fees are unreasonably high with telephone-based payment means; they can be significant with offline terminals and electronic currencies.
- Pre-authorized, recurring payments are possible only in fragmented cases and are still used very rarely. This complicates the business model of several industries.
- Merchants have to aggregate a great number of payment solutions, leading to complex processes or to the necessity of paying for additional aggregation services.

The Russian government's \$2.6 billion "e-Russia" program (2002-2010) was intended to stimulate the growth of e-commerce throughout the country, using federal and local E-government initiatives as a catalyst. One of the results was the launch of the internet site of state services [www.gosuslugi.ru](http://www.gosuslugi.ru). Another government initiative in these years was the launch of the e-commerce platform [www.zakupki.gov.ru](http://www.zakupki.gov.ru) and accreditation of several private e-commerce platforms such as Sberbank Ast, MMVB Information technologies and RTS Tender, which was aimed at centralizing government and municipal purchases and making them transparent. These sites consolidate all procurement inquiries from government agencies, thus providing qualified suppliers the opportunity to sell products and services directly to the government.

In 2010 the “e-Russia” program was followed by the “Information Society” Program, which was approved by the Russian Government for the period 2011 to 2020. The program includes six key areas: e-government, improving quality of life of citizens and improving the business environment, overcoming the digital divide, security in the information society, development of the information and communication technology market and the preservation of cultural heritage. According to the Minister of Communications Igor Shchegolev, 2011 will be a transition year, but for 2012 larger funding requirements will be submitted to the Ministry of Finance. The project has a budget of RUB 88 billion across the ten-year period, of which RUB 78.7 billion will be used from 2014 to 2020.

## Trade Promotion and Advertising

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Television, radio, print, and billboard media are ubiquitous in the Russian market. Most international advertising agencies are active in Russia; domestic agencies are present in the market as well. Strong economic growth and increasing incomes have resulted in growth in the advertising industry, although enforcement of some advertising laws has been inconsistent, leading to situations where already purchased advertising is then disallowed by local government officials. Major advertisers in Russia include successful Russian and foreign manufacturers of consumer goods, particularly of processed foods and beverages.

In 2010 the advertising market recovered rapidly after the economic downturn of 2008-2009 and companies are now actively increasing their media and marketing budgets. Experts from the Russian Association of Communication Agencies summarized the results of advertising market development in three quarters of 2011. The general volume of advertising without VAT totaled about \$5.6 billion, which is a 25% increase, compared to 2010.

Segments	Jan-Sep 2011 (Figures in Rubles)	% Increase over 2010
<i>TV</i>	88.1-89.1	25
Incl. terrestrial television	86.8-87.8	25
cable	1.30	41
<i>Radio</i>	7.8-8.0	15
<i>Press</i>	28.0-28.2	7
Incl. newspapers	5.6-5.7	4
magazines	13.3-13.5	10
advertising periodicals	9.0-9.1	5
<i>Outdoor advertising</i>	25.5-25.7	20
<i>Internet</i>	26.5-27.5	57
Incl. media advertising	9.0-9.5	49
contextual advertising	17.5-18.0	63
<i>Other</i>	2.1	23
<b>Total</b>	<b>179.0-180.0</b>	<b>25</b>

Source: Association of Communication Agencies in Russia [www.akarussia.ru](http://www.akarussia.ru)

Though traditional forms of advertising are still prominent in Russia, in the context of the crisis, advertising agencies reconsidered their approach to the communication mix and increased their share of non-standard communication methods, including “below the

line” (BTL), trade programs, ambient media, and flash mobs (publicity stunts). Advertising on the internet continues to be a growth industry.

### **Social Networking**

Both Russian and Western social networking sites are growing in popularity with huge consumer penetration, especially among younger demographic groups. The two most popular social networks are Russian-based VKontakte (<http://www.vkontakte.ru/>) and Odnoklassniki ([www.odnoklassniki.ru/](http://www.odnoklassniki.ru/)).

Facebook is making inroads into the market in Russia. As of December 2011 there were over 5.3 million Facebook users in Russia making it the third largest social networking site behind VKontakte (112 million users) and Odnoklassniki (95 million users).

Advertising and media firms are becoming well versed in social media campaigns, although it is still a relatively new phenomenon.

The following is a list of media outlets and print publications listed from highest to lowest penetration in Moscow<sup>1</sup>:

### **TV Channels**

ORT: <http://www.1tv.ru>

NTV: <http://www.ntv.ru>

Russia 1: <http://www.rutv.ru>

TNT: <http://tnt-online.ru>

STS: <http://www.ctc-tv.ru>

### **Radio stations**

Avtoradio: <http://www.avtoradio.ru>

Russian Radio: <http://www.rusradio.ru>

Shanson: <http://www.chanson.ru>

Europa Plus: <http://www.europaplus.ru>

Retro FM: <http://www.retrofm.ru>

Yumor FM: <http://www.veseloeradio.ru>

### **Press**

#### Daily newspapers

Metro: <http://www.metronews.ru/msk>

Moskovsky komsomolets: <http://www.mk.ru>

Iz ruk v ruki: <http://www.irr.ru>

Sovetskiy Sport: <http://www.sovsport.ru>

Rossiskaya Gazeta (“Russian newspaper”): <http://www.rg.ru>

#### Weekly newspapers

Teleprogramma: <http://www.kp.ru/daily/tv>

Arguments and facts: <http://www.aif.ru>

Extra M: <http://www.extra-m.ru>

Komsomolskaya Pravda Tolstushka: <http://kp.ru/daily/friday>

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<sup>1</sup> Source:TNS statistics

### Weekly magazines

7 Days: <http://www.7days.ru>

Antenna – Telesem: <http://www.antenna-telesem.ru>

Teleweek: <http://teleweek.ru>

Teshin Yazik: <http://trisemerki.ru/izdaniya/jurnaly/Teschin-Yazyk/index.htm>

TV – 7: <http://www.tv7.ru>

### Monthly magazines

Caravan of stories: <http://www.karavan.ru>

Za rulem: <http://www.zr.ru>

Vokrug Sveta: <http://www.vokrugveta.ru>

Cosmopolitan: <http://www.cosmo.ru>

Lyubimaya Dacha: <http://ldacha.ru>

## **Pricing**

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Russian consumers are attracted to bargains, but are increasingly able and willing to pay for quality merchandise. U.S. companies exporting to Russia should be prepared to offer competitive prices for their goods, knowing that in many areas they face inexpensive Russian, Asian and strong European and other third-country competition. With a few exceptions, all goods and services sold in Russia are subject to a value-added tax (VAT) of 18%. Imports into Russia are subject to VAT, which is assessed on the CIF value of an imported shipment plus applicable duty. In addition, in many sectors with strong local and third-country competition, it will be necessary to spend money on advertising and brand promotion. All these costs should be figured into the U.S. exporter's pricing structure and become part of a long-term marketing and sales program.

## **Sales Service/Customer Support**

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Good after-sales service, training and customer support can be a major competitive advantage for U.S. firms entering the Russian market, as Russian manufacturers are known for inadequate post-sale service. Similarly, buyers of sophisticated equipment of all types - from computers and process controls to medical and mining equipment - are keenly interested in training, as their employees may never have used particular products or brands. U.S. firms able and willing to offer training and support for products, particularly in remote sites, can gain a significant advantage over competitors. Conversely, companies unwilling to make this commitment may find themselves at a distinct disadvantage to European or Asian companies, whose proximity facilitates training and service. After-sales service is also often an important component in leasing arrangements in Russia, and will play a larger role in the decision process as leasing continues to develop. Leasing in Russia is covered in Chapter 7.

## **Protecting Your Intellectual Property**

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### **IPR Climate in Russia**



Several general principles are important for effective management of intellectual property rights in Russia. First, it is important to have an overall strategy to protect IPR. Second, IPR is protected differently in Russia than in the United States. Third, rights must be registered and enforced in Russia, under local laws.

U.S. firms should proactively take steps to protect their intellectual property in Russia, including registering their trademarks with the Federal Service for Intellectual Property (Rospatent) and the Russian Federal Customs Service. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. government generally cannot enforce rights on behalf of private individuals in Russia. While the U.S. government is willing to assist, there is little it can do if the rights holder has not taken the fundamental steps necessary to secure and enforce his IPR in a timely fashion. The U.S. Commercial Service can provide a list of law firms based in Russia, which can provide advice on registering intellectual property and enforcing rights.

A good business partner is an important ally in protecting intellectual property rights. Legal counsel familiar with Russian laws can assist to reinforce the partners' IPR obligations by drafting a contract that includes non-compete clauses and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-sized companies work with trade associations and organizations to support efforts to protect IPR and stop counterfeiting. There are a number of these organizations, both Russia- and U.S.-based. These include:

- American Chamber of Commerce in Russia (AmCham)
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)
- Coalition for Intellectual Property Rights (offices in the United States and Moscow)
- Russian Anti-Piracy Organization (RAPO) (represents the Motion Picture Association of America)
- Business Software Alliance (represented by Baltic Law Offices in Russia)
- Association of Branded Goods Manufacturers in Russia (RusBrand)
- Federal Service for Intellectual Property (Rospatent)
- Russian Federal Customs Service
- Russian Ministry of the Interior, Economic Security Department

More detailed information on IPR issues in Russia is provided in Chapter 6 (Investment Climate). Contact information is provided in Chapter 9.

## **IP Resources**

A wealth of information on protecting IPR is freely available to U.S. rights holders. Some excellent resources for companies include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the U.S. and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at [www.StopFakes.gov](http://www.StopFakes.gov).

- For more information about registering trademarks and patents (both in the United States as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the United States, contact the U.S. Copyright Office at: **1-202-707-5959**; [www.copyright.gov](http://www.copyright.gov).
- For U.S. small and medium-size companies, the Department of Commerce offers an "International SME IPR Advisory Program" available through the American Bar Association that provides one hour of free IPR legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and Thailand. For details and to register, visit: [http://www.abanet.org/intlaw/intlproj/iprprogram\\_consultation.html](http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html).
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: [www.StopFakes.gov](http://www.StopFakes.gov). This site is linked to the USPTO website for registering trademarks and patents (both in the United States as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IPR-infringing products) and allows you to register for Webinars on protecting IPR.
  - o For an in-depth examination of IPR requirements in specific markets, toolkits are currently available in the following countries/territories: Brazil, Brunei, China, Egypt, European Union, India, Italy, Malaysia, Mexico, Paraguay, Peru, Russia, Taiwan, Thailand, and Vietnam.
  - o For assistance in developing a strategy for evaluating, protecting, and enforcing IPR, use the free **Online IPR Training Module on** [www.stopfakes.gov](http://www.stopfakes.gov).

The U.S. Commerce Department has positioned IP Attachés in key markets around the world. Contact information for the IP Attaché who covers Russia is available at: <http://export.gov/russia/contactus/index.asp> or by emailing [RussiaUSPTO@trade.gov](mailto:RussiaUSPTO@trade.gov).

## Due Diligence

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As previously noted, Russia can be a challenging market fraught with obstacles for the U.S. company that does not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and in selecting local partners is not advisable. Complicating these efforts is the fact that the Russian economy continues the transition from a closed, centrally planned economy to a more open, market economy. This means that basic business information about regulations, company ownership and credit worthiness are not always easy to find, and the regulatory framework continues to evolve requiring companies to stay up-to-date with changes. The U.S. Commercial Service offers the International Company Profile service as a way to evaluate potential partners. For more information on this and other services, visit <http://export.gov/russia/index.asp>. Noted below are additional resources.

## Local Professional Services

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While professional services in Russia are expensive, attempts to avoid such expenditures could be perilous. In Russia's unsettled commercial environment, early and ongoing advice on tax and legal issues will ultimately save both aggravation and money. Russian commercial regulations are contained in thousands of presidential, governmental and ministerial decrees. Often, these decrees and laws overlap or conflict. Determining tax obligations is a complex task. Furthermore, Russian accounting practices differ markedly from Western standards. Although the Russian government has officially stated that conversion to international accounting standards is a priority, the process is still far from complete.

In Moscow and St. Petersburg, there are many offices of major western accounting, legal and consulting firms blending the skills of Russian and foreign professionals. Competent smaller firms also operate under Russian or western management. U.S. firms should avail themselves of locally based specialists familiar with issues confronting western firms in Russia. The U.S. Commercial Service offices throughout Russia maintain lists of local attorneys and accounting firms. The American Chamber of Commerce in Russia is also a good source.

#### **Web Resources**

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U.S. Commercial Service in Russia: <http://export.gov/russia/index.asp>

U.S. Department of Agriculture: <http://www.fas.usda.gov>; <http://eng.usda.ru>

U.S. Embassy in Russia: <http://moscow.usembassy.gov>

State Registration Chamber: <http://www.palata.ru/en>

Company Registration: <http://eng.nalog.ru>

Russian Direct Selling Association: <http://eng.rdsa.ru>

American Chamber of Commerce in Russia: <http://www.amcham.ru>

U.S.-Russia Business Council: <https://www.usrbc.org>

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## Chapter 4: Leading Sectors for U.S. Export and Investment

### **Commercial Sectors**

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### **[Agricultural Sector](#)**

## Agricultural Equipment

### Overview

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Unit: USD thousands

	2010	2011	2012 Estimate	2013 Estimate
Total Market Size	1,700,000	4,066,000	6,065,000	7,947,000
Total Local Production	833,000	1,339,000	1,714,000	788,000
Total Exports	176,620	130,170	134,080	63,020
Total Imports	1,044,000	2,857,000	4,486,000	7,222,000
Imports from the U.S.	168,000	177,540	271,640	426,470

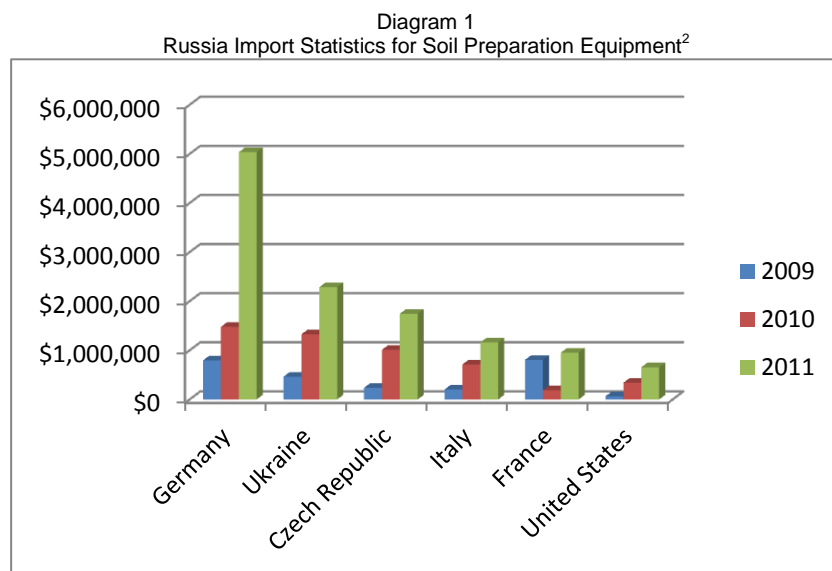
Sources: Estimates from Russian Association of Agricultural Machinery Producers and Russian Ministry of Industry and Commerce.

According to estimates from Rosagromash, the Russian Association of Agricultural Machinery Producers, and the Russian Ministry of Industry and Commerce, the total market for agricultural equipment in Russia in 2011 reached nearly \$4 billion. Total local production increased 60% while imports increased almost twice.

Currently, according to estimates of the Russian Federal Service of State Statistics, equipment capability of the Russian agro-industrial complex is very weak. Up to 70% of the equipment used by Russian farmers is worn-out and up to 90% is outdated. Experts predict that major upgrades in agricultural machinery will start in 2013. This massive increase is reflected in the large increase in total imports into Russia on the chart above for the year 2013.

Leading foreign suppliers of agricultural machinery to Russia are EU countries (such as Germany, Italy, France, Netherlands, Czech Republic and others) Ukraine and the U.S. Canada and China are also large suppliers, but are not in leadership positions.

The following diagram is an example of the growth that exporters have seen in one industry sector in their exports to the Russian market.



Leading Russian producers of agricultural equipment are:

- Rostselmash
- Group of Companies “Traktornie zavody”
- St Petersburg Tractor Plant

Leading producers of agricultural equipment from CIS are:

- Minsk Tractor Plant (Belarus)
- Gomselmash (Belarus)
- Kharkov Tractor Plant (Ukraine)

Other foreign producers of agricultural equipment (with varying levels of local content):

- John Deere (USA)
- CNH (U.S.)
- Claas (Germany)
- Agco (U.S.)

The Russian government has made it a priority to ensure food security for the nation by increasing the amount of agricultural goods produced in Russia. Therefore, there is a demand for agricultural equipment that allows increasing yield and labor capacity as well as guaranteeing ecological safety and a safe work environment.

As noted above, investments in agricultural machinery will take place over the next 18 months. Investments must also be made in equipment for crop breeding and seed production. According to data of the State Seed Inspection, only 20% of first seeds in Russia belong to first class; while 10-35% of seeds are nonconforming.

<sup>2</sup> Global Trade Atlas (HS 843280)

Although the growth potential is very high, there are several problems that the Russian agricultural sector is facing right now:

- High interest rates for purchasing agricultural equipment. (Currently minimal interest rates are 12%.)
- Rapid price increases for agricultural products caused by high prices on raw materials and energy.
- Low growth in foreign investments in the sector.
- Due to financial instability of Russian farming enterprises, the demand for agricultural equipment can also be unstable.

The Russian Ministry of Industry and Commerce has developed a document called “Strategy for Development of Agricultural Machinery Production in Russia up to 2020”. According to this plan, the total size of the agricultural machinery market in Russia in 2020 will reach \$10 billion.

Table 1  
Forecast for the development of agricultural machinery market  
By the Russian Ministry of Industry and Commerce<sup>3</sup>

	Total market size (\$millions)	Import share (%)	Export share (%)
2008	4,736	73	20
2009	1,930	60	30
2020	10,937	36	40

To achieve the results above, the Russian Ministry of Industry and Commerce suggested a number of measures to be implemented within the next few years. The measures include modernization of machinery production, increasing competitiveness of local machinery, new rules for estimating the level of localization, increasing subsidy assistance for interest rates on credits for purchasing agricultural equipment, etc. All these measures are being considered by the Russian government, but may be difficult to implement as Russia officially become a member of the WTO.

Overall, Russia’s membership in the WTO will provide significant commercial opportunities for agricultural equipment exporters:

- U.S. manufacturers and exporters will have more certain and predictable market access as a result of Russia’s commitment not to raise tariffs on any products above the negotiated rates and to apply non-tariff measures in a uniform and transparent manner.
- Russia agreed to bind all of its tariffs on agricultural equipment and, after full implementation of its WTO commitments, Russia’s average tariff on agricultural equipment will be 5.2%.

<sup>3</sup> Strategy for development of the Russian Agricultural Machinery market up to 2020 by the Russian Ministry of Industry and Commerce

Table 2  
Review of Tariff Rates after WTO Accession for Agricultural Equipment<sup>4</sup>

Product	HS	Current Tariff	Tariff after WTO Accession	Final Bound Rate	Implementation
Soil Preparation Equipment	8432	5	5	5	
Seeders	8432.30	5	5	2	2014
Harvesting & Threshing Machinery	8433	5	5	5	
Milking machines and dairy machinery:	8434	5	5	3	2014
Tractors for Agricultural Use - New	8701.90	15	15	10	2015
Tractors for Agricultural Use – Used	8701.90.5000	15	15	10	2014

### Sub-Sector Best Prospects

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- Equipment for seed production
- Cultivators and other soil preparation equipment including plows, harrows, cultivators, seeders and fertilizer spreaders
- Equipment for dairy livestock breeding, swine and poultry production
- Agricultural tractors
- Combines and other harvesting equipment. Currently are subjects to duty tariffs - 15% of the customs price, but not less than 120 Euro for 1 kW of engine power. After Russia officially joins the WTO, the tariff rates will be reduced to 5%.

### Opportunities

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The agricultural sector experienced a great downturn due to the financial crisis and recent weather conditions in Russia. However the sector is now recovering. After Russia becomes a member of WTO there will be many opportunities for U.S. exporters in the agricultural sector as the tariff rates will be bound at lower levels allowing U.S. equipment to compete with locally produced, cheaper equipment. Besides, most government programs that support purchasing locally produced equipment by subsidizing interest rates may be cancelled if they contradict WTO rules.

Some major U.S. companies have proposed comprehensive equipment, financing and service projects, which could significantly increase associated farm machinery imports to Russia by making use of export credit guarantees available from the Export-Import Bank

<sup>4</sup> The definition for agricultural equipment is based on Harmonized System (HS) Headings 8432, 8433, 8434, and 8701.

of the United States. For additional information about Ex-Im Bank programs for Russia, to go: <http://www.exim.gov/russia/index.cfm>.

For U.S. firms interested in the Russian agricultural machinery market, exhibiting at one of the two key Russian agricultural trade shows is advised. These trade shows are a powerful marketing tool and reassure Russian buyers that the U.S. company is committed to establishing and maintaining its presence in the Russian market. Substantial sales are often made at these events. U.S. companies may also have opportunities where financially healthy Russian companies are trying to expand in order to satisfy growing demand for domestically produced food. For example, increased sales of meat, fruit and vegetable processing equipment may be possible.

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### **Organizations**

Ministry of Agriculture: [www.mcx.ru](http://www.mcx.ru)

Soyuzagromash, the Association of Agricultural Machinery Producers:  
<http://www.rosagromash.ru/>

Ministry of Industry and Trade: <http://www.minprom.gov.ru/eng/>

### **Trade Events**

YugAgro  
June 14-16, 2012  
*Krasnodar, Russia*  
<http://yugagro.org/?lang=en-GB>

Golden Autumn Russian Agricultural Week Trade Show  
October 6-16, 2012  
*Moscow*  
<http://www.goldenautumn.ru/en/>

Agrosalon  
October 10-13, 2012  
*Moscow*  
<http://agrosalon.com>

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## Apparel

### Overview

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Unit: USD Thousands

	2010	2011	2012 (estimate)	2013 (estimate)
Total Market Size	38,350,000	44,486,000	53,383,200	69,398,200
Total Local Production	10,277,800	9,680,150	10,961,100	13,661,000
Total Exports	2,607,800	2,117,500	2,953,600	2,904,300
Total Imports	30,680,000	36,923,380	45,375,700	58,641,450
Imports from the U.S.	107,380	115,200	132,500	149,900

Estimates from Discovery Research Group and US Commercial Service.

Overall, experts believe the Russian apparel market has excellent growth potential and low risk, making it an attractive growth area for U.S. companies. The Russian apparel market grew by 16% in 2011 compared to 2010. Although some segments of the market are close to saturation, many experts predict the total annual market growth of approximately 20% for 2012.

The apparel market had been booming for the last few years but was slowed down by the economic crisis in late 2008. In 2009, the market experienced only a 5% growth rate. Many consumers switched to the lower priced segment, which allowed mass-market retailers like Zara and H&M to grow. Experts predict the continuing growth of the middle-price segment in this sector.

Women's apparel accounted for approximately 60% of the market in 2011. The smaller men's and kids' apparel segments grew by 13.4% and 16.6%, respectively, in 2011 according to Express Obzor.

The segment of the apparel market with the smallest prospects for growth is underwear. According to industry specialists, it is very saturated. High and middle priced segments are occupied by large well-known international brands while Chinese manufacturers and some local players dominate the inexpensive underwear segment. The growth of the underwear segment in 2011 resulted in only 0.4%.

Outdoor markets still remain the most popular apparel distribution channel in Russia. According to BSMarket, the share of this channel is about 75%. This type of distribution is mostly typical in the regions, while the situation in the larger Russian cities is different. Of the population that lives in larger cities, 11% to 22% shop in single-brand boutiques; up to 45% prefer shopping malls. Discount centers are also a popular format for the larger cities.

According to Business Monitor International, sales from traditional Russian-style outlets (универмар) are expected to decrease significantly over the coming years as domestic and international players enter regional areas with new, modern format stores. The market share of these format stores is growing at one of the fastest rates in the world as national, regional and local chains occupy areas of the market once dominated by the 'grey' (informal) sector or independents.



New laws introduced in late 2006 have limited activity by foreign nationals in outdoor markets, largely affecting small shuttle traders from markets such as China and Vietnam. Local traders remain but many markets have disappeared or are moving to the margins of cities and larger towns. Unsurprisingly, many traders have found ways around this by formally reorganizing as trading companies to circumvent the rules, but the net effect appears to be a reduction in informal activity.

Moscow and St Petersburg are still leading in the share of apparel purchases in Russia. About 40% of all the purchases are made in these two cities.

Moscow has pursued an active policy of attracting large retail operators while pushing traditional markets beyond the city limits. The Moscow city government adopted a plan in 2002 to double trading facilities to 16 million m<sup>2</sup> by 2020. This includes supermarkets and wholesalers of 10,000-80,000 m<sup>2</sup> in suburban areas and retail trade zones between 130,000 m<sup>2</sup> and 400,000 m<sup>2</sup> on the Moscow Ring Road motorway (MKAD).

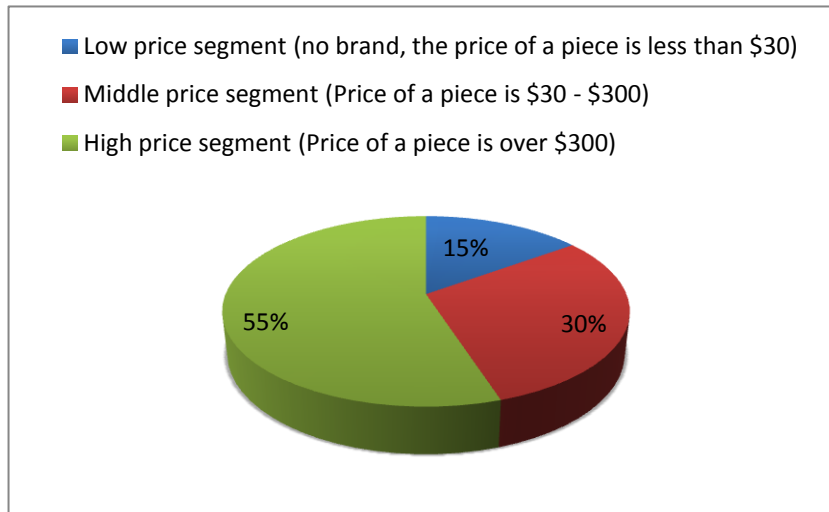
The Mayor of Moscow, Sergey Sobyenin, has announced plans to impose strict limits on the construction of new retail complexes within the Third Ring Road, which comprises the majority of the city center. This could potentially be applied retroactively to existing planning applications. As such, development activity may shift to the city's outer suburbs.

Most players already in the market are now moving aggressively to Russia's regional customer bases outside of Moscow, where the market for modern retail outlets is still poorly developed. Some large regional cities are getting crowded, if not saturated, and local chains are being bought up.

Experts also predict the significant increase in Internet shopping. It is expected that the share of apparel bought over the Internet will double by 2020 to 20% of the total market.

Apparel is divided into three major categories based on price:

Diagram 1  
Structure of the Russian apparel market based on the pricing



Market insiders remain very optimistic about the prospects of the Russian apparel market.

Companies have resumed building new shopping malls in large cities. The number of new shopping centers has led to a decrease in rental rates and lower barriers to market entry. The more stable economic situation has encouraged people to spend more on apparel and accessories.

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- Casual apparel
- Children's apparel
- Active wear
- Evening wear
- Luxury apparel

#### Opportunities

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Despite the fact that many well-known brands have already entered the market, the sector still has a great deal of potential. Opportunities remain in mid-priced apparel and the premium segment that is quickly recovering after the economic crisis.

For U.S. firms interested in the Russian apparel market, exhibiting at one of the key Russian apparel trade shows is advised. These trade shows are a powerful marketing tool and reassure Russian buyers that the U.S. company is committed to establishing and maintaining its presence in the Russian market.

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**Organizations**

Russian Ministry of Industry and Commerce: <http://www.minprom.gov.ru/eng/>

**Trade events**

Collection Premiere Moscow (CPM)

February 28-March 2, 2012

*Moscow*

[http://cpm-moscow.com/cpm/en/Fashion\\_Fair.html](http://cpm-moscow.com/cpm/en/Fashion_Fair.html)

Volvo Fashion Week

April 4-9, 2012

*Moscow*

<http://www.fashionweekinmoscow.com/>

Mercedes Benz Fashion Week

October 2012

*Moscow*

<http://mercedesbenzfashionweekrussia.com/>

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## Auto Parts and Service Equipment/Accessories

### Overview

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USD thousand	2010	2011	2012
Total Market Size	36,000,000	40,000,000	48,000,000
Total Local Production	15,000,000	17,000,000	20,000,000
Total Exports	na	na	na
Total Imports	21,000,000	23,000,000	28,000,000
Imports from the U.S.	800,000	900,000	1,000,000

Source: U.S. Commercial Service estimates for OEM supplies and aftermarket

Russia represents a large potential market for the U.S. automotive industry. Currently, the rate of car ownership in Russia is only 30% of the U.S. rate. The total Russian motor vehicle fleet is estimated at 38 million units, including over 28 million cars.

Russia is the fastest growing and one of the largest automobile markets in Europe. During 2001-2008, this market grew at an annual rate of 20-25% per year and included robust sales of imported used cars and trucks. The world financial crisis that started in 2008 put a damper on the Russian car market. Sales of new cars dropped 49% in 2009, while sales of trucks fell even more, by 70%. Used vehicle sales ceased as a result of the crisis and new, increased import duties.

In 2010, Russia's car and LCV market started to recover, demonstrating 30% market growth and reaching sales of 1.9 million vehicles, including 1.4 locally manufactured units. The growth trend continued in 2011 and as a result the car sales in 2011 achieved over 2.6 million vehicles. The number of domestically assembled foreign makes is estimated at over 700,000 units and expected to be about 1,000,000 units in 2012. Overall, Russia's automotive market is expected to continue to recover, growing 10% per year through 2015.

As part of the automotive industry, the supply chain and market for components, including aftermarket replacement parts and accessories was also greatly affected by the 2008 financial crisis. However, since Russian domestic manufacturers are not capable of producing the quality parts, accessories and equipment required for modern cars and trucks, the imported parts market was not hurt as badly as the vehicle market.

The Russian auto industry is one of the major sectors of the domestic economy. The Russian Government is taking measures to support the industry. Nonetheless, Russian vehicle assembly and component manufacturing factories remain crippled by outdated equipment, lack of modern technologies and inadequate management. The major local automotive market players include: AvtoVAZ, currently controlled by the state owned Rostechologies Corporation and Renault (25% equity); Sollers, which partners with Ford; GAZ Group and Avtotor, which provides assembly for several international OEMs. The majority of component manufacturing assets are owned by a number of independent manufacturers, although the vertical integration with OEMs in component manufacturing is still fairly high.

There are several projects underway to assemble foreign cars in Russia. Ford's plant began operation in July 2002 in a suburb of St. Petersburg. The high demand for the

new Focus model made Ford one of the sales leaders in 2002-2011. Currently, production capacity of this plant is 125,000 vehicles. GM has several ventures in Russia: the GM-AvtoVAZ joint venture has manufactured the Chevrolet-Niva SUV since September 2002, an assembly plant in St. Petersburg that makes 70,000 Chevrolet and Opel vehicles annually and contract assembly projects with GAZ and Avtotor. In 2005, Renault started manufacturing its low-cost Logan vehicle at a Moscow-based facility. The factory's current turnover is about 70,000 vehicles. Renault is planning to replace the low-cost Logan in Moscow by higher-end models and move Logan manufacturing to AvtoVAZ facilities in the near future. Another Renault-Nissan project in Russia is the plant in St. Petersburg that was launched in 2009 to produce 50,000 Nissan Teana and X-Trail vehicles annually. In December 2007, Toyota launched an assembly facility in St. Petersburg to manufacture 50,000 Camry vehicles annually. Volkswagen and PSA opened their plants in Kaluga, 100 miles from Moscow, in 2008-2009. Hyundai began operating a new plant in St. Petersburg in 2010 and manufacture 150,000 low-cost sedan vehicles – the Hyundai Solaris – developed specifically for the Russian market. There are also several other lesser known projects: Sollers set up Ssang Yong SUV assembly and Fiat low-cost sedans in Yelabuga and another Ssang Yong assembly facility in the far-east region of Russia. The latest development in the industry was an announcement made by Fiat in the end of 2011 about their commitment to set up an assembly facility in St. Petersburg to manufacture Fiat and Chrysler vehicles.

There are also truck and bus assembly projects in Russia being developed by Volvo and Scania. The major obstacle to successful development of foreign assembly projects in Russia is the lack of local component suppliers.

#### **Sub-Sector Best Prospects**

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Engine and engine components, steering components, brake system components, power train components, seats, tires, interior components, specialty equipment for cars, new car dealerships, automotive aftermarket service and maintenance.

#### **Opportunities**

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The best opportunities for U.S. firms are in the establishment of local manufacturing facilities or the formation of joint ventures with Russian firms and the supply of components to foreign vehicle assembly projects in Russia. Those projects' operators are so interested in developing component supplier bases that they are ready to financially support interesting projects. International financing institutions, such as the EBRD (European Bank for Reconstruction and Development), are also inclined to provide financing for automotive projects in Russia. Although the Russian automotive industry was significantly affected by the 2008-2009 recession, industry analysts believe that the growth demonstrated in 2010-2011 will continue in the mid-to-near future, since the demand is still considerable.

Another good prospect is to supply upgraded equipment and technology to Russian manufacturers. Opportunities also exist in the licensing and transferring of modern technology to Russian component manufacturers.

Aftermarket sales of replacement parts and accessories are dynamic, with high customer receptivity to U.S. products. Many U.S. brand names are very well known and sell strongly in Russia. Some of the "Made in the USA" products that Russian motorists

seem to favor are lubricants, automotive chemicals and off-road accessories. There are no known trade barriers affecting imports of U.S. automotive products; tariffs for many imported spare parts are a relatively low 5%. The most important factor affecting growth of sales of U.S. aftermarket products in Russia is the U.S. exporters' lack of interest in sharing brand building risks with local distributors. In the crisis-affected market, the small and mid-size suppliers of specialty equipment for cars will be competitive if they are aggressive in their market entry, brand-building and promotion actions.

Finally, Russia lacks a well-developed network, even in the largest cities, of high quality aftermarket maintenance and service centers. Many of the first foreign car brands introduced to Russia are now coming to the end of their manufacturers' warranty period, creating opportunities for U.S. companies to partner with Russian automotive businesses to meet increasing demand for quality, independent aftermarket maintenance and repair services.

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### **Organizations**

National Association of Automotive Component Manufacturers  
5 Sushchevsky Val, bldg 2  
Moscow 127018 Russia  
Tel: +7(495) 974 8772, 73, 74  
<http://en.napak.ru/>

St. Petersburg Association of Automotive Component Manufacturers  
16 Bolshaya Monetnaya Str.  
St. Petersburg 197101 Russia  
Tel. +7 (812) 313 8254  
[apac@spbapac.ru](mailto:apac@spbapac.ru)

### **Trade Events**

Auto & Automechanika and Autoinvest Conference  
Apr 12-14, 2012  
*St. Petersburg*  
<http://aam.lenexpo.ru/en/>

Automechanika - Moscow International Motor Show  
Aug 27-30, 2012  
*Moscow*  
<http://www.mims.ru/Default.aspx?lang=en-GB>  
<http://eng.interauto-expo.ru/interauto/>

### **Publications and market research**

Autobusiness Market Research Agency and Magazine  
<http://www.abiz.ru/en>  
Autostat Market Research Agency  
<http://www.autostat.ru/>

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**Russian Aviation Parts Market**

Unit: USD thousands

	2009	2010	2011 (estimated)	2012 (estimated)
Total Market Size	3,743,000	5,757,000	7,553,000	8,868,000
Total Local Production	3,761,000	4,223,000	6,268,000	8,148,000
Total Exports	2,948,000	1,986,000	2,939,000	4,349,000
Total Imports	2,930,000	3,520,000	4,224,000	5,069,000
Imports from the U.S.	565,000	1,487,000	1,859,000	2,324,000
Exchange Rate: 1 USD				30,31 RUR

Data Sources:

Total Local Production: Financial Data from United Aircraft Corporation

Total Exports: HTS Code 88 from the Global Trade Atlas

Total Imports: HTS Code 88 from the Global Trade Atlas

Imports from U.S.: HTS Code 88 from the Global Trade Atlas

Federal Air Transport Agency reports that approximately 100 million passengers used the Russian air transport system during 11 months of 2011 (more than 60 million passengers traveled by Russian airlines and about 40 million passengers by foreign airlines), which is a 12-13% increase compared to 2010. The Federal Air Transport Agency forecasts the continued growth in 2012 to “the development of regional aviation, improvements in the Russian aircraft navigation system, and modernization of ground airport and airfield infrastructure.” However, the growth is estimated at a bit lower 10% due to the increase in the cost of air fuel, some industry experts say. The 2011 Airbus forecast indicates that the passenger traffic in Russia is expected to increase at a rate of 5.6% per year on average over the next 20 years, which is much faster than the world average of 4.8%.

The anticipated air traffic growth will drive the markets for new aircraft, MRO services, and aircraft spare parts supply. Western aircraft will continue to play a significant role in Russia’s air transportation. The current share of Western aircraft within Russian airlines’ fleets is estimated at 74% (as of October 2011). The latest Airbus forecast indicates that this share is expected to increase up to 80% in 2012. In addition, Russian carriers, over the next 20 years, will need more than 1,000 passenger aircraft valued at approximately \$95 billion to meet fleet growth expectations as well as aircraft replacement. These additional units will include approximately 839 single-aisle aircraft which are currently prominent in regional fleets, 145 wide-bodied aircraft, and 22 Very Large Aircraft (VLA) to satisfy strong international growth. The above figures are comparatively compatible with the Boeing forecast (until 2030), including the differences of the future aircraft fleet structure.

In addition to growing market needs, replacement of aging Russian and Western aircraft is another important target for Russian airlines, much in part to economic and environmental pressures. The average age of Boeing aircraft in Russia is 16 years and Airbus aircraft age is 6 years. “The majority of aging Russian and Western aircraft will discontinue operations by 2015, and must be replaced by modern aircraft, “according to



Igor Samoylov, Director of the Licensing Center from the State Aviation Research Institute.

Local aircraft manufacturers are not currently able to meet the growing market demand due to Western competition and smaller production capabilities (7-11 aircraft per year). However, the Russian aviation industry remains a strategic sector for the Russian Government consisting of approximately 300 aviation companies, including 108 industrial manufacturers, and 111 R&D and design bureaus. As Russia is looking towards the high-tech sector as a source for its future growth, the Federal Target Program "The Development of Civil Aviation Engineering in Russia for 2002-2010 and to 2015" will spend \$6.3 billion for the support and development of the aviation industry.

Key government organizations representing 80% of the Russian aviation industry:

- **United Aircraft Corporation (UAC)**, a holding company consisting of the leading Russian aircraft design bureaus, aircraft manufacturers and services companies structured as specialized divisions for commercial, transport, combat, and specialized aircraft. UAC is working to increase the output of commercial aircraft from the current 15% to 47% by 2025. In order to be competitive internationally, UAC is increasingly entering into collaborative ventures with Western suppliers.
- **United Engine-Building Corporation (UES)**, a subsidiary of OBORONPROM Industrial Holding Company, controls all Russian helicopter manufacturers as well as the manufacturers of main aggregates and systems, representing the entire model range of the industry. UES consolidates over 80% of Russia's engine-building assets.
- **Helicopters of Russia Holding** is a subsidiary of OBORONPROM Industrial Holding Company and focused on the helicopter industry. The holding incorporates 14 helicopter companies, including design bureaus, manufacturers and service companies.
- **Rostekhnologii (RT)**, a super state corporation that consolidates assets of 140 industrial enterprises in many industries, including those in aviation such as Helicopters of Russia, Engine-Building Corporation, Aviation Instrument Making, RT Chemical Composites, RT Metallurgy and other. UAC has a strategic partnership with RT in an effort to raise production efficiency by eliminating competition among domestic manufacturers and creating other synergies that will allow expanding capabilities in the development and manufacturing of new products.

Key UAC commercial aircraft programs:

- **Regional Sukhoi Superjet-100 (SSJ)**, a medium-haul passenger aircraft. SSJ entered into operational service in the spring of 2011. Single aircraft have now been delivered to both Armavia and Aeroflot. In January 2012, Aeroflot received its fifth SSJ aircraft.
- **MS-21**, a twin-engine short-to-medium single aisle aircraft. MS-21 boasts significant share of composite materials (40-45%). By June 2011, the pre-design phase of development had been completed and working design began, with an estimated completion date of this phase sometime in mid-2012.
- **Tu-204SM**, an advanced reduced-weight version of Tu-204 aircraft, a twin-engine medium-range aircraft. This plane has been upgraded to meet current and future Russian/International safety requirements, including new ICAO and Eurocontrol standards which include all environmental parameters, noise, and emission levels.

According to Tupolev, the company is negotiating with 7-9 customers and the forecasted orders will include 140 aircraft.

### **Sub-Sector Best Prospects**

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In doing business in the Russian market, it is often not the product, but the attitude and the way in which business is performed that is what really matters. The desired attitude can be best described by the expression that is often used by Russian partners when asked how U.S. firms can succeed in this market: "It is important to invest oneself". This means not only a financial investment such as setting up a representative office, sharing costs for product promotion or trade show booth rental with a Russian partner but also, most importantly, a certain degree of commitment to the Russian partners. For example, frequent contact, trips to Russia to meet with Russian partners and principle customers, and the physical presence at the trade shows are all very important in the Russian market

Along with country commitment, American SMEs must have a competitive advantage that will allow them to win contracts over their European competitors. In the spare parts segment, for example, Russian partners appreciate such selling points as competitive prices, integrator solutions capabilities (access to a wide range of parts), own warehousing (preferably in Europe) and/or a well-run logistics route.

Brand recognition is another important factor. It has been observed that while the U.S. aviation industry accounts for 25% of the global aviation market, smaller American companies are hesitant to invest in brand awareness and international expansion. Such companies might be losing millions of dollars in profits that would otherwise be obtained from positioning their activities on international parts platforms (as a way to build international recognition), according to Locatory.com, a global e-business aircraft spare parts platform. In order to raise awareness and strengthen position internationally (especially in rapidly growing markets), aviation companies must put extra emphasis on their image. A properly developed and well positioned image is the key to attracting major investment.

"Transfer of technology" is an important factor to consider when it comes to collaboration with the Russian government structures, such as UAC and Russian Helicopters. Imports are sometimes an initial phase of cooperation that may lead to offers for localization and technology transfers. Based on past experience, some private Russian businesses have also exhibited a heightened interest in localization as a way to bring down the product costs and to remain competitive in this market.

Below are the market segments that offer good business prospects for U.S. firms:

#### **Aircraft spare parts and replacement components**

The quickly expanding Western aircraft fleets drive up the demand for aircraft spare parts and replacement components. The Russian aircraft spare parts market is estimated at \$600-700 million per year, according to Locatory.com. Russian airlines have to spend about \$150 million annually for maintenance and repair of 500 medium-haul Western aircraft (Boeing, Airbus), \$120 million annually for 300 long-haul Western aircraft and \$18 million monthly for 60 regional Western aircraft (Bombardier, CRJ).

#### **MRO services for Western aircraft**

The number of independent domestic providers of MRO services, especially those capable of heavy maintenance, is very limited (S7 Engineering, Sibir Technics, VARZ-400) due to a shortage of a skilled (English-speaking) labor force and complex taxation and legal, regulatory environment which cause delays with parts delivery. Therefore, many Western aircraft owned by Russian airlines undergo MRO services for heavy maintenance outside of Russia. Although most Russian airlines have already established business relationships with Western and domestic MRO providers, they continue to seek out new ways of developing and expanding their business networks, which opens avenues for new market players. The Aero Strategy consulting firm forecasts the annual MRO growth in Russia of 4.4%, with the market reaching \$750 million by 2019. The market for 2010 was estimated at about \$500 million for Russia and \$830 million for CIS countries with 23% for line maintenance, 11% for heavy maintenance, 40% for aircraft engine repair, 22% for component repair, and 4% for aircraft modification.

#### **Aircraft components for Russian aircraft**

UAC requires a significant amount of parts and components for existing and new Russian aircraft and is also the prime contractor on major upgrade programs. Both SSJ and MS-21 have a considerable share of Western components. The wide range of required products include: avionics, navigation and communication systems, engines, onboard electronic equipment, safety and emergency equipment, interior, fasteners, control drives, frequency converters, fasteners, paints, and lacquers.

#### **Components for Russian helicopters**

Russia, a traditional leader in the niche of heavy/medium combat and transport helicopters, has an annual helicopter production growth of 20-30% annually, which will allow Russia to gain at least 15% of the world helicopter market by 2015. Russian Helicopters dominates the markets of Russia and CIS (in 2010, it had 85% of helicopter sales in this region), and leads in the booming markets of India and China. It is rapidly increasing its presence in Latin America, Middle East and Africa. Russian manufacturers may be interested in Western components in the following areas: avionics, navigation and communication, safety, medical, search and rescue, fire protection, onboard equipment, fasteners, tools and materials.

In the light segment, Russian manufacturers are still not able to meet the growing demand in-country, and they are interested in strategic partnership with foreign helicopter manufacturers - Eurocopter, August Westland, Bell and Sikorsky Aircraft - to localize their helicopter assembly.

#### **Manufacturing technologies and machine tools**

The demand for new manufacturing technologies and machine tools continues to grow due to the planned modernization of production facilities both at aircraft and helicopter production plants. With state funding available for modernization, Russian plants appear to be promising buyers. However, competition is strong and smaller U.S. firms need to demonstrate innovative and competitive strategies in promoting their products to the Russian buyers in this segment.

#### **Advanced materials**

Modernization in special metallurgy (represented by the manufacturers and developers of special metals and alloys) and in the composite industry (the manufacturers and developers of carbon fibers, prepregs and composite materials), together with integrated

solutions from industrial software and machine tool vendors, are expected to increase production capacities and product qualities in the Russian aviation industry. Transfer of technology remains a priority in this segment. In August 2011, AeroComposite Ltd., a subsidiary of UAC, and FACC AG, an Austrian manufacturer of advanced composite components, announced a joint venture for the manufacture of composite aircraft components for future Russian aircraft such as MS-21 and new versions of SSJ-100. The second phase of the project will also produce components for aircraft of Western manufacturers. The investment of 55 million Euros will support the construction of a plant in Kazan with the start of production planned for mid-2013.

## Opportunities

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While imports of foreign products continue to play an important role in the Russian aviation industry, an emerging regional trend is to decrease reliance on imports and to emphasize the development of capabilities to manufacture similar products locally.

### ***Ulyanovsk Special Economic Port Zone (SEPZ)***

The Zone offers a unique tax regime and simplified customs procedures to allow domestic and foreign companies to localize in Russia in order to gain competitive advantage in this market. The Zone was established by the Russian Government decree as of December 2009 and will specialize in aircraft and helicopter full-cycle manufacturing, including the production aircraft components such as avionics, power units, aircraft interiors for Western and domestic aircraft, MRO services and cargo logistics. The Zone resident status was awarded to the following three companies:

- **Volga-Dnepr Technics Ulyanovsk** - MRO service center for wide-body and ramp jets (An-124, B-747). The amount of investment is estimated at 2.3 billion Rubles. Project partners include Boeing and Lufthansa Technic. The construction of the center is due to begin in 2012.
- **FL Technics Ulyanovsk** – MRO services center for Boeing and Airbus aircraft used by Russian airlines. The amount of investment is estimated at 795 million Rubles. The construction of the center is due to begin in 2013.
- **Vityaz Aviation Corporation** – assembly production of DHC-6 Twin Otter Series 400 jets together with Viking, its Canadian partner. The amount of investment is estimated at 457 million Rubles. The construction of the center is due to begin in Q3 2012.

### Major SEPZ benefits:

- Reduced profit tax from 20% to 15.5%
- 0% property tax, 0% land tax and 0% transport tax for 5 to 10 year period;
- No customs duties and no VAT tax on products imported from abroad;
- No VAT on added value for products to be manufactured within SEZP;
- No VAT on products that are manufactured in Russia and shipped to SEPZ;
- Provision of land plots to Zone residents at reduced rates;
- Provision of the basic infrastructure facilities and connection to the power networks at the expense of the regional budget.

### About Ulyanovsk:

Ulyanovsk, the birthplace and childhood home of Vladimir Lenin and a city of approximately 600,000 inhabitants located 893 km east of Moscow, positions itself as “the aviation capital” of Russia. The regional government is proactive in its efforts to

promote the potential of the Ulyanovsk aviation cluster that includes a major manufacturer (AVIASTAR SP), avionics companies, design bureaus, airports, cargo and passenger carriers, and universities.

The U.S. Commercial Service undertook an Aerospace Supplier Development Mission to Moscow and Ulyanovsk in October 2010. Following the mission, \$8 million worth of U.S.-made composite processing equipment was sold to the major aircraft manufacturer AVIASTAR-SP.

## Web Resources

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### Trade Events

Participating in trade events remains a critical element in a successful business development strategy for Russia. U.S. companies can meet prospective Russian partners not only at major Russian trade shows, but also at international shows, especially in Europe. Examples include the Farnborough International Air Show, Paris Air Show, and the ILA Berlin Air Show. Besides these major aerospace shows, there are also a large number of specialized exhibitions on such topics as machine tools and aerospace testing. Major Russian and international shows are listed below:

Heli-Expo 2012

February 11-14, 2012

*Dallas, TX*

<http://www.rotor.com/Events/HELIEXPO2012.aspx?src=banner>

Singapore Air Show

February 14-19, 2012

*Singapore*

<http://www.singaporeairshow.com/>

Aircraft Interior Expo 2012

April 27-29, 2012

*Hamburg, Germany*

<http://www.aircraftinteriorsexpo.com/>

HeliRussia 2011, Fifth International Helicopter Exhibition

May 17-19, 2012

*Moscow*

<http://www.helirussia.ru/en/index.html>

Farnborough International Air Show

July 9-13, 2012

*Farnborough, U.K.*

<http://www.farnborough.com/trade-welcome>

International Air Transport Forum Ulyanovsk-2012

August 23-25, 2012

*Ulyanovsk, Russia*

<http://en.ul-avia.com/>

ILA Berlin Air Show

September 11-16, 2012

*Berlin, Germany*

<http://www.ila-berlin.de/ila2012/home/index.cfm>

Aerospace Testing Russia 2012

October 2-4, 2012

*Moscow*

<http://www.aerospace-expo.ru/?lang=en-GB>

### **Internet Resources**

Russian Aviation News & Information Server: <http://www.avia.ru/english>

Aviation News Agency "Aviaport" (only in Russian): <http://www.aviaport.ru/>

### **Commercial Service Contact**

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## Chemicals/Plastics

### Overview

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Unit: USD thousands

\$ millions	2008	2009	2010	2011 (estimate)
Total Market Size	41,385	31,998	35,197	58,014
Total Local Production	44,365	34,428	37,870	45,614
Total Exports	21,630	15,980	18,730	24,500
Total Imports	18,650	13,550	27,870	36,900
Imports from the U.S.	497	357	617	785

Sources: U.S. Commercial Service estimates and RIA-Analitika Research Center

### Chemicals

Although Russia's chemical sector was hit by the global economic downturn and falling oil prices, the long term holds healthy growth prospects. The chemical sector is one of the few industries in Russia where production volumes for Q1 2011 exceeded the pre-crisis level of the same quarter in 2008. In 2011, market size increased 8% compared to 2010. The Russian chemical market had total revenue of \$58 billion in 2010, representing a compound annual growth rate (CAGR) of 1.3% for the period spanning 2006-2010.

After a 23% decline in the Russian chemical market in 2009 due to the global financial crisis, the industry started to rebound. Market performance is forecast to accelerate, with an anticipated CAGR of 4.2% for the five-year period 2010-2015, which is expected to deliver a market value of \$71.4 billion by the end of 2015.

Analysts from the Russian research agency RIA-Analytical attribute the recent success of the Russian chemical industry to several reasons, including increased export demand for mineral fertilizers during a period of high prices for agro products, as well as a polymer deficit in the domestic market related to the increased demand for plastic products from various industries in Russia.

In 2011, both exports and imports continued to grow. Chemical imports in Russia have been growing faster than exports. In Q1 2011, imports increased 29.8%, whereas exports increased 20%. 60% of Russian exports consist of mineral fertilizers, ammonia, methanol and synthetic resins. Russian imports consist of polymers (\$2,693.2 mn in Q1 2011), pharmaceuticals (\$2817.8 mn), organic and non-organic chemicals (\$952.8 mn), perfumes and cosmetics (\$718.1 mn), soaps and synthetic detergents (\$304.5 mn).

According to Global Atlas data, the chemical sector accounted for almost \$1.6 billion of U.S. exports to Russia from 2008-2010 (annual average) or 13% of total U.S. industrial exports to Russia.

Russia's invitation for accession to the WTO provides significant commercial opportunities for the U.S. chemical sector. U.S. manufacturers and exporters will have more certain and predictable market access as a result of Russia's commitments not to raise tariffs on any products above the negotiated rates and to apply non-tariff measures

in a uniform and transparent manner. Russia agreed to bind all its tariffs on chemicals and, after full implementation of its WTO commitments, Russia will reduce its average tariffs on chemical products to 5.3%.

Russia currently produces about 1.1% of the world's chemical products -- 20<sup>th</sup> place globally. The Russian chemical market constitutes 7.3% of the European market and 1.7% of the Russian industrial market. The Russian industry is fully privatized and is dominated by a number of very large companies, although medium and small companies play an active role. Leading Russian chemical companies include: SIBUR Holding, Nizhnekamskneftekhim, Lukoil-Neftekhim, Eurokhim, Nizhnekamskmeftekhimi, EuroChem, Salavatnefteorgsintez, PhosAgro, Akron, Uralkaliy, Novomoskovskaya Stock Company Azot, Schekinoazot, Tomskneftekhim and Kazanorgsyntez.

About 60% of domestic production consists of basic chemicals such as fertilizers, synthetic plastics and resins. While the bulk of exports are primary chemicals, such as styrene, methanol, and synthetic rubbers, the range of imported product categories is broad and represented by high technological products such as PVC, polystyrene, paints and coatings and chemical fibers.

The Russian Ministry of Industry and Energy's Strategic Development Plan through 2015 for the chemical industry forecasts the chemical market to reach \$153.2 billion (34% annual growth) by the end of this period. The government's strategy foresees a decrease in imports to 12% (compared to almost 50% now) and the development of domestic production to replace imports of more complicated, secondary chemicals. However, experts say it is unlikely that this plan for aggressive development of domestic production will be completed by the target date.

Petrochemical production growth in 2011 has been led by Sibur's expansion, with the company planning a 14% increase in annual output to 18.8m tons. Major players in the industry include petrochemical subsidiaries of oil and gas operators, Sibur and Lukoil-Neftekhim, and individual petrochemical plants within oil and gas companies such as Surgut, TNK-BP, Tatneft and Itera. Russia is expected to build up to 10 complexes to produce ethylene, each with 1m ton capacity by 2030.

The Russian government has grand plans for its petrochemicals sector, which in spite of the country's huge oil and gas wealth remains underdeveloped. The Energy Ministry has set out plans to spend billions of dollars establishing a number of petrochemical hubs across the country and building the infrastructure, including pipelines and railways, to support an expanded petrochemical base. According to industry reports, those plans are likely to be slowed over the short term as the Euro zone debt crisis continues to influence the global economy.

### **Plastics**

The Russian polymers market has been dynamically and actively developing during the last 10 years. In 2010, polymer demand increased 2.5 times compared to 2000. In the same period production grew 1.9 times. In 2000, supply was 1.05 times greater than demand and Russian exports were 1.2 times higher than imports. However, in 2005 the situation changed: demand for polymers was 1.2 times larger than supply, and Russian polymer imports were 2.5 times higher than exports. The increase in production development remained stable even during the crisis year 2009: despite the 6% decline



of polymer demand compared to 2008, it was still 1.08 times higher than supply. In 2009, imports of polymers and rubber represented about 4.5% of all Russia's imports.

In 2010, demand for plastics in the Russian market grew 21.8% compared to 2009, whereas production increased 5.1%. Demand for polymers in 2010 was 1.25 times higher than supply. In 2010, Russian production of plastics reached 4.9m tons, 108.5% of 2009 figures. The deficit of Russian polymers was compensated by imports. In 2010, the import share of the total Russian polymer market was 36.4%. In 2011, the increase in Russian polymer market development continued and demand is expected to reach 6.6m tons in 2011.

From 2007-2011, polymer demand grew faster than local production, which led to imports' 50% share of the polymer segment and a rise in polymer prices, especially polyethylene. With the increase in production volumes, new international companies have entered the Russian market.

Before Russia's invitation for accession to the WTO, Russia's tariffs on plastics averaged 10% and went as high as 20%. After full implementation of its WTO accession commitments, Russia's average tariff on U.S. plastic exports will be reduced to, and bound at, 6.2%. Increased local demand for smart plastics is likely to encourage foreign JV investments.

Russian plastics production volumes have increased maximum rates in the chemical industry in 2011. The highest volumes of local production occur in polymers and synthetic resins sector. The increase in local polymer production was 8.8% from January-October 2011. Ethylene polymer production rose 7.5%, styrene polymer volumes increased 15.1%, while propylene polymers and other olefins production rose 13.1%.

The rise in Russian imports from non-CIS countries was 42.9 % during the first two months of 2011 compared with the same period last year, reaching \$28.5 billion in total. The Russian market presents significant commercial opportunities for U.S. chemical exporters as Russia relies on imports to cover around 50% of the market demand. Market developments are affected by strong selling events such as the Winter Olympics in Sochi (2014) and the Football World Championship (2018) which will probably be held at 13 different geographical locations in the European part of Russia.

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Chemical products in demand include polyethylene materials, PVC sheets, PVC films (furniture, posters), polyolefin films, PET films, polypropylene sheets and geomembranes.

Chemical industry products are sold as unbranded commodities. As a result, marketing strategies are greatly simplified. Absent contractual commitments, a consumer would be just as likely to buy from a new player on the market as from an established producer. The processes and formulas used to manufacture chemicals used by the Russian industry have been around for decades, in many cases without intellectual property restrictions.

The competitive situation in the chemical market will force local producers to upgrade their technologies to meet growing demand for new materials and products. In the next five years, the best opportunities for U.S. exporters will be production equipment and materials that can enable local manufacturers to gain a higher market share in quality chemical secondary products, such as PVC, ABS, and polyethylene products.

## Opportunities

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Domestic producers of chemical and plastic materials can currently meet only 50% of market demand. This dynamic provides good prospects for chemicals and plastics from U.S. suppliers, which can use a difference in the euro/dollar exchange rate to their pricing benefit. Opportunities lie in the areas of polymers and high-tech chemicals where market demand is continuing to grow.

Investment in the development of the chemical sector is crucial for the Russian economy and provides U.S. machinery suppliers an opportunity to sell their chemical and plastic processing equipment. The Russian government's plan for the development of the chemical industry, noted above, will be crucial for funding these purchases. Both injection molding machines and extrusion equipment are in demand.

## Web Resources

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### Organizations

Plastinfo – Plastics Industry Directory: <http://plastinfo.com/>

Russian Petrochemical Community: <http://www.rupec.ru/>

### Trade Events

4<sup>th</sup> International Chemical Assembly: Green Chemistry

October 23-26, 2012

*Moscow*

<http://www.ica-expo.ru/en/>

Industria Plastmass-2012

October 23-26, 2012

*Moscow*

<http://www.plastics-expo.ru/en/>

Khimiya 2013

September 2013

*Moscow*

<http://www.chemistry-expo.ru/en/>

### Publications

The Chemical Journal: <http://www.tcj.ru>

Analytical Portal of Chemical Industry <http://newchemistry.ru/>

Chem-Courier (On-Line Journal on Chemical Market) <http://www.chem-courier.ru/>

Plastics (Industry Journal) [www.plastics.ru](http://www.plastics.ru)

Market Report (Plastics Industry Analytics) <http://www.mrcplast.ru/>

Polymery-Dengi Journal <http://www.polymers-money.com/>

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## Construction

### Overview

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Unit: USD thousands

Value of Housing Units	2010	2011	2012 (estimate)	2013 (estimate)
Total Market Size	14,700,000	16,900,000	15,300,000	17,136,000
Total Local Production	8,500,000	10,100,000	9,300,000	10,416,000
Total Exports	-	-	-	-
Total Imports	6,200,000	6,944,000	7,777,280	8,710,553
Imports from the U.S.	900,000	1,008,000	1,128,960	1,264,435

Data Sources: 1) Rosstat publications; 2) Interviews with industry experts

The Russian construction industry recorded strong growth in 2011 with a growth rate of 12%, due to significant private and public investment in commercial, industrial, infrastructural and residential construction projects related to its hosting of the Asia-Pacific Economic Cooperation (APEC) Summit 2012, Olympic Games 2014 and FIFA World Cup 2018. Following a decline of 30.9% in 2009 due to the economic downturn, the Russian construction industry experienced 9.5% growth in 2010. As a result of government support and the continued demand for infrastructure due to upcoming international sporting and trade events, the industry is expected to register double-digit growth over the coming years, at the rate of 12%.

The significant grow in nonresidential construction countered a further 3% decline in the residential construction from the previous year.

Despite the slowdown, many developers remain optimistic and continue to look at this market as a tremendous opportunity. Industry experts observe that the buyer's preferences are changing; given that the property prices inside the city areas is unaffordable for the majority of the population, people start acquiring apartments and townhouses in the vicinity of the city area, at the distance of 15-40 miles. Cost of construction in these areas is much lower than in the city area.

Additional market growth may be fueled by private residences construction and country home (dacha) construction. This upsurge is driven by the fact that people wish to move out of the city at summer time.

The construction of sports facilities, hotels, and transportation systems has already begun in Sochi and the Krasnodar region, however all the major contracts and supplies have been distributed and it is widely observed that obtaining any supply contract within this system is rather challenging if a company does not have a reliable local partner involved in Sochi construction projects. Many experts also warn against excessive investments in Krasnodar and Sochi area, as the infrastructure that is being created will be used only for the short period of time. The speculative increase of the prices may turn into a dramatic Krasnodar area collapse shortly after Olympic Games in 2014.

The construction equipment market is characterized by strong competition. Main competitors are Chinese, German, Korean and U.S. companies. The current trend is that Chinese and Korean companies enter the market through the eastern region of

Russia, monopolizing the market. One of the explanations is geographical location and proximity of these regions as well as the improved quality of the products.

Many experts predict that after Russia's accession to the WTO, the construction market may grow with a double digit rate. The current import tariff is about 25% and after the transition period its average will be reduced to 5%. However the real effect is overestimated: it is unlikely that the players in the market will rush to offer discounts to the buyers, moreover large players such as Caterpillar, Volvo, JCB, Case and Komatsu are already in the domestic market operating the local assembly and production facilities.

Local manufacturers suffer from insufficient investment. However the situation is changing rapidly. For instance, domestic crane manufacturers are on the high pushing out foreign producers from the local market. In the segment of the market with the lifting capacity up to 30 tons, Russian brands control over 70% of the sales.

Price is an important factor but one mainly considered by small construction companies or minor subcontractors. Nowadays large companies employing more than 1000 people prefer leasing equipment rather than buying it.

Renting companies have also entered the local market for construction equipment. In 2011 almost 40% of the construction equipment (except road construction equipment) was acquired by renting companies.

Up to 95% of apartments and homes in Russia are sold without interior finishes; therefore, demand for such products will continue to grow. Although 80% of building materials are sold in open markets, the "Do it yourself" (DIY) segment continues to expand as demonstrated by growing consumer purchases at such stores as OBI, Leroy Merlin and IKEA.

Basic products that are used for the primary finishing such as cement, concrete mixes, plasterboards and plastic windows are manufactured locally using mostly German technologies. Technology leaders such as Knauf (Germany) have numerous plants in the country. Korean companies such as Samsung and LG Chem have also entered this market establishing representative offices involved in selling residential windows systems and artificial stone which is used for in-home decoration.

#### **Sub-Sector Best Prospects**

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Construction equipment: Tractors, bulldozers, mobile cranes, concrete pumps and mixers, excavators, compaction rollers, front loaders and crushers, metal cutting equipment, fast building technologies and equipment.

Building materials: Roofing materials, wall building materials, energy efficient materials, construction additives and interior decoration materials and sanitary products.

#### **Opportunities**

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U.S. construction equipment is well known in Russia for its excellent quality and reliability. U.S. manufacturers can further improve their market share by offering state-of-the-art technology and products, and by employing reputable agents and/or

distributors. Price, reliability, availability of sales financing and after-sale service continue to be the main competitive criteria for equipment exports to Russia. Given the current value of the U.S. dollar to the Euro, used construction equipment from the United States may become popular among Russian companies that want to minimize their costs.

Opportunities also exist for licensing and transfer of modern U.S. technology to Russian equipment and component manufacturers.

Provided the right price is established, U.S. building products can compete against those from European suppliers. Because DIY chains have become much more active in the Russian market, U.S. companies can also be competitive in retail sales of DIY products in these chains.

## **Web Resources**

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### **Organizations**

Builders Association of Russia: <http://www.a-s-r.ru/english/default.aspx>

Construction World: Integrated Body for Urban Design Policy and Development of Moscow: <http://stroimos.ru/eng/default.aspx?m=1&d=6>

Ministry of Energy and Industry of the RF: <http://www.minpromtorg.gov.ru/eng>

### **Trade Events**

International Construction Week

March 13-17, 2012

*Moscow*

<http://www.stroytekh.ru/defaulteng.aspx> - Building equipment, road machinery and building technologies

<http://www.betonexpo.ru/defaulteng.aspx> - Cement, concrete and prefabricated concrete items for construction & landscaping

<http://www.iset-expo.ru/Default.aspx?lang=en-GB> - Professional and household tools of all types

Mosbuild

April 2-5, 2012

*Moscow*

<http://www.mosbuild.com>

Balticbuild

September 12-14, 2012

*St. Petersburg*

<http://balticbuild.primexpo.com/>

City Build

October 16-18, 2012

*Moscow*

<http://www.city-build.ru/home.aspx?lang=en-GB>

### **Publications**

Construction  
<http://www.ianc.ru>

Spec-Technika  
<http://www.spec-technika.ru>

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## Consumer Electronics

### Overview

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Unit: USD thousands

	2010	2011	2012 (estimated)	2013 (estimated)
Total Market Size	21,500,000	27,950,000	36,000,000	39,000,000
Total Local Production	5,000,000	5,950,000	7,000,000	8,000,000
Total Exports	1,500,000	2,000,000	2,500,000	3,000,000
Total Imports	18,000,000	24,000,000	31,500,000	34,000,000
Imports from the U.S.	2,300,000	3,200,000	4,500,000	5,000,000

Data Sources: Expert estimates

The Russian consumer electronics market includes telephones, MP3 players, home and automotive audio/video equipment, personal computers, TV sets, calculators, GPS automotive navigation systems, home security and automation products, products for playback and recording of digital video and audio media, digital cameras and camcorders, and other products for entertainment and communications.

Before the recent economic crisis, the consumer electronics market was one of Russia's most developed and most competitive retail sectors. In 2009, Russia's consumer electronics market declined drastically. Industry experts evaluated market at \$18.5 billion (a 35% decrease compared to 2008). However, starting in the Q2 2010, the consumer electronics market started to grow and it reached \$21.5 billion by the end of the year. In 2011 the market showed strong signs of recovery with annual growth of 30%.

Based on expert evaluations, including GFK-Russia research, the U.S. Commercial Service estimates the following 2011 sales volumes for key product groups:

Product Category	2011 \$ Million	% change from 2010
Audio/video equipment	7,200	28
Personal computers, components, and accessories	10,400	48
Mobile, radio phones and other telecommunication devices	6,600	20
Photo equipment	2,100	46
Home office equipment and consumables	1,650	8
Total	27,950	30

In 2011, sale growth in the audio/video industry subsector was mostly generated by the demand on flat panel TVs, including Full HD, LED, 3D, and Slimline models; car audio; and home theaters. The most demanded products in the IT subsector were mobile computers, including notebooks, net books, and tablet PCs. The market for telecom products was mostly driven by sales of mobile smart phones with touch-screen



technology and applications and services for mobile phones. The digital photo market continued recovery mostly because of increased sales of compact digital cameras providing higher resolution and advanced features, such as HD video, at an affordable price. The market for office equipment continued to recover, but did not show high growth rates.

Accurate figures for the consumer electronics market in Russia are difficult to determine due to a large number of so-called “grey market products” imported into the market. However, with the growth of the largest retail chains, whose market share will increase, a corresponding decrease in “grey market” goods is expected.

### **Imports**

The major portion of the consumer electronics market is occupied by products imported from Asia, Europe, and the United States. All major global brands are represented in Russia and have wide recognition. The U.S. consumer electronics share of the Russian market is mostly represented by IT products, high-end audio products, automotive audio and navigation products, home security and automation products, and mobile phones.

### **Domestic production**

Local production is mostly represented by a large number of small and medium sized Russian IT companies and several telecom manufacturers.

An example of foreign investment in the domestic IT industry is a \$50 million HP and Foxconn joint venture, which started production of HP desktop computers in St. Petersburg in April 2010.

There is a \$700 million joint venture project for production of “Plastic Logic 100 for Education,” an electronic textbook designed specifically for the Russian education sector, between Russian State Nanotechnology Corporation ROSNANO and the British Plastic Logic company. According to Plastic Logic, a factory for the manufacture of next-generation screens and devices is currently being built in Zelenograd, on the outskirts of Moscow, and, when complete, it will be the largest factory in the world for plastic electronics.

Other local manufacturers include ODMs (original design manufacturers) providing EMS (electronics manufacturing services) for contract manufacturing of CRT, PDP, and LCD TVs, as well as DVD players under the Sony, Panasonic, Akai and other well-known marks.

### **Distribution**

Consumer electronics products are imported and distributed in Russia by many distributors. All major international brands have their representative offices or authorized distributors as well. About 50% of consumer electronics marketed in Russia are sold by several of the largest retail chains that have hypermarkets and stores located in Moscow, St. Petersburg and other large cities. Another 25% are sold by regional chains, while the rest is sold by small retail companies and through the Internet. However, recently the share of products sold through the Internet significantly increased. According to Citibank Russia analytical department, the volume of products sold through Russian Internet in 2012 will increase by 33% and will reach \$27 billion.

Participation in local trade shows/conferences and international events focused on Russia is very important for promotion of new products and establishing contacts with key industry people.

### **Sub-Sector Best Prospects**

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- Audio/video equipment
- Automotive audio and navigation products
- Home security and automation products
- Multi-media
- Wireless and networking products
- Mobile smart phones
- Mobile computers

### **Opportunities**

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The Russian market, with a population of 140 million, has huge potential and it offers continued growth potential due to relatively low penetration in product groups, such as computers and Hi-End digital products, especially in the remote regions.

Prior to the impact of the global economic crisis on the Russian market that began in late 2008, the consumer electronics sector was recognized as one of the fastest growing in Europe. During the crisis, however, customers started to save on purchases of consumer electronics, which are discretionary items for Russians. However, industry analysts believe that following the industry recovery in 2011, the Russian market will continue to grow in 2012.

Computers will continue to be the main growth driver of Russia's consumer electronics industry with increasing share of notebooks, net books, and tablet PCs. According to expert estimates, local PC assemblers control about 80% of the PC market. Therefore, computer components will also continue to be in a strong demand.

High-end mobile phones, particularly the latest smart phones and 3G handsets, are highly sought-after status symbols for Russian consumers. According to Business Monitor International, it is expected that by the end of 2013, more than 50% of handset sales will be of 3G models, up from around 10% in 2009. However foreign suppliers will be concerned by apparent Russian government threats to ban imports of handsets that do not have a Russian GPS system.

Quality, functionality and uniqueness should be competitive advantages for all products exported to Russia. New highly advanced products are in constant demand and their sales show continuing growth. As most of these products are imported and there is always strong demand for the latest and most technological categories, solid opportunities exist for U.S. companies, particularly in high quality electronics gear and modern digital electronic products. Therefore, Russia remains a significant international market for U.S. consumer electronics.

### **Web Resources**

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**Organizations**

Russian Association of Trading Companies and Manufacturers of Consumer Electronics (RATEK):

[http://www.ratek.org/cgi/new\\_design/main.cgi?lang=eng&work=assoc&rec=engdecl](http://www.ratek.org/cgi/new_design/main.cgi?lang=eng&work=assoc&rec=engdecl)

**Trade Events**

Consumer Electronics & Photo Expo 2012

Premium Hi-Fi & Home Theatre 2012

April 12-15, 2012

*Moscow*

<http://www.cep-expo.ru/en/>

<http://www.premiumhifi.ru/en/premium/>

Integrated Systems Russia 2012

October 30 – November 1, 2012

*Moscow*

<http://www.isrussia.ru/en/isrussia/>

Hi-Tech Building 2012

October 30 – November 1, 2012

*Moscow*

<http://htbh.ru/en/htbh/>

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## Electric Power Generation and Transmission Equipment

### Overview

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Unit: USD thousands

(billion Kwh)	2010	2011	2012 (estimate)	2013 (estimate)
<b>Electricity Generation</b>	1025.0	1040.4	1080.0	1106
<b>Electricity Consumption</b>	1009.2	1021.0	1056.0	1082
<b>Electricity Exports</b>	15.8	18.0	20.0	22.0

Source: Russia System Operator; Federal Tax Service.

Russia holds the world's largest natural gas reserves, second largest coal reserves, and eighth largest oil reserves. It is the fourth largest generator and consumer of electricity in the world; its 440 power stations (77 coal-fired) have an installed generation capacity of 220 GW. The grid links over two million miles of power lines, 93,000 miles of which are high voltage cables over 220 kV. Electricity generation is based largely on thermal (gas - 46%, coal - 18%), hydro (18%), and nuclear (17%) power. 60% of thermal generation is from combined heat and power plants (CHP). Russia operates 31 nuclear power reactors in 10 locations, with an installed capacity of 21 GW. Despite considerable geothermal, wind and wave resources, renewable energy production accounts for less than one%.

In 2002, the Russian government began reforming the power sector. The main goal was, and remains, to upgrade the aging and outdated heating and electricity infrastructure. The restructuring involved the separation and privatization of the generation, transmission and sales companies. The grids were brought under regulatory supervision. Power generation was divided up into seven wholesale generating companies (OGK) – including RusHydro, 14 territorial generating companies (TGK), independents and state-owned entities. OGKs contain power plants and specialize mainly in electric power generation. TGKs contain predominantly combined heat and power plants (CHPs). The gradual liberalization of the wholesale electricity market, completed in January 2011, now allows producers to charge market prices. The transmission grid remains mostly under state control.

As a result of the reorganization, Inter RAO UES became a major generating company in Russia in the field of export and import of electric power. The total installed capacity of the power plants owned or managed by the company is around 18,000 MW. The company's main types of activities are generation of electric and thermal power, sales of electric and thermal power to consumers, and export and import of electric power.

Foreign and domestic companies have invested about \$27 billion in the power sector; as a condition of their investment, they committed to create 186 GW of new capacity by 2020. As Russia emerged from the crisis, some investment plans were resumed, with strong growth anticipated. According to the International Energy Agency, the Russian power sector will require a \$440 billion investment by 2030 to avoid regional blackouts and meet future demand. This will include installing new generating capacity and significantly modernizing what is currently installed.

The European Bank for Reconstruction and Development has invested in many of the new power generating companies. In addition, as part of its crisis response actions in its Russia strategy for 2009-2012, EBRD states it will provide support to both private and state-owned power companies, with balance sheet restructuring, refinancing, liquidity support or financing of investment shortfall for priority projects with high energy efficiency parameters. In June 2010, EBRD also laid the groundwork for a strategic partnership with the Federal Grid Company.

Russian equipment producers are also modernizing their production. Power Machines (Siloviye Mashiny) is the market leader with a share of over 50%. It unites production, supply, construction, maintenance and modernization of equipment for thermal, nuclear, hydraulic and gas turbine power plants. The following big international energy equipment holdings are well established and have joint ventures or their own production facilities in Russia: General Electric, Siemens, Alstrom, ABB, Skoda Power, Mitsubishi Heavy Industries, Ansaldo Energia, and Areva.

#### **Sub-Sector Best Prospects**

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The development of the energy sector has led to an increasing demand for highly technological equipment that is efficient and environmentally friendly. The Russian power engineering industry, well developed before the fall of the Soviet Union, can no longer supply all of Russia's energy sector needs.

#### **Opportunities**

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The most competitive markets are concentrated around the cities of Moscow and St. Petersburg, whereas the regions are considered growing markets. Western equipment is usually installed in newly built infrastructure, while existing equipment is mainly maintained with locally produced equipment and to a lesser extent upgraded with Western devices.

According to the Energy Strategy of Russia for the period up to 2030, the priorities in the electric energy industry are:

- developing gas turbines with a capacity of 300-350 MW and highly efficient condensation combined cycle gas turbine units with a capacity of 500-1000 MW and a performance index exceeding 60%;
- designing standard modular combined cycle co-generation units with a capacity of 100 and 170 MW and a performance index amounting to 53-55% for heat and power plants;
- developing environmentally friendly coal condensation units on ultra supercritical steam conditions with a capacity of 660-800 MW, as well as combined cycle units on solid fuel gasification (200-600MW) and coal synthesis gas;
- introducing technological energy complexes working on gas and solid fuel for combined production of electricity and synthetic liquid fuel;
- developing highly integrated intelligent transmission and distribution networks (Smart Grid) in Russia's Unified Energy System;
- developing power electronics, especially various types of network control devices (flexible alternating current transmission systems), automated electricity demand control systems; and hydroelectric equipment for tidal power plants.

Russia is generally very receptive to U.S. products. Companies such as General Electric, Dresser-Rand, and Compressor Controls Corporation are present in the Russian market and their products are available either directly or through representatives or distributors. Imports from third countries are also growing. U.S. firms encounter increasing competition in the Russian market from European and Chinese manufacturers. Companies with production capacities in Russia tend to have an advantage over those that produce equipment abroad. This is the main motivation for foreign companies to form joint ventures and start production in Russia.

Tenders for energy projects are processed through the world's largest marketplace for power generation equipment online at [www.b2b-energo.ru](http://www.b2b-energo.ru). Most of the OGKs and TGKs also have their own marketplaces on their websites. A foreign vendor needs to keep in mind that paper documentation for tenders is generally required in the Russian language. The power stations officially publish tenders for some renovation tasks. For major projects, they work with specialized engineering, procurement and construction companies (EPCs).

Current information about new tenders, analytical materials, regulatory documents, application procedures and other participation requirements may be found at <http://tenderenergo.ru>. The website is in Russian and intended for local representatives of foreign companies and Russian power supply firms. Information on state procurement (government purchases) can also be found at <http://www.b2b-energo.ru/?lang=eng>.

The Russian government has stated that it intends to expand the role of nuclear and hydro-power generation in the future, to allow for greater export of fossil fuels, with a plan to increase nuclear generation to twice its current level. However, many nuclear plants are due for decommissioning, some of the older reactors will likely be replaced in the near future (ten nuclear units currently under construction), and meeting such a target will require billions of dollars of investment per year over the next decade

## Web Resources

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Russian Ministry of Energy:	<a href="http://www.minenergo.gov.ru">http://www.minenergo.gov.ru</a>
Rosatom - Federal Agency for Nuclear Energy:	<a href="http://www.rosatom.ru/en">http://www.rosatom.ru/en</a>
Rosenergoatom:	<a href="http://www.rosenergoatom.ru/wps/wcm/connect/rosenergoatom/site_en/">http://www.rosenergoatom.ru/wps/wcm/connect/rosenergoatom/site_en/</a>
Press Center of Nuclear Energy and Industry:	<a href="http://www.minatom.ru/en">http://www.minatom.ru/en</a>
System Operator:	<a href="http://www.so-cdu.ru">http://www.so-cdu.ru</a>
Federal Grid Company:	<a href="http://fsk-ees.ru/eng">http://fsk-ees.ru/eng</a>
Inter RAO UES:	<a href="http://www.interrao.ru/en">http://www.interrao.ru/en</a>

The OGK and TGK websites (many also in English) may also contain information about each company's investment, procurement and production plans.

OGK-1 <a href="http://www.ogk1.com/en">http://www.ogk1.com/en</a>	OGK-6 <a href="http://www.ogk6.ru/en">http://www.ogk6.ru/en</a>
OGK-2 <a href="http://www.ogk2.ru/eng">http://www.ogk2.ru/eng</a>	RusHydro <a href="http://www.eng.rushydro.ru">http://www.eng.rushydro.ru</a>
OGK-3 <a href="http://www.ogk3.ru/en-main">http://www.ogk3.ru/en-main</a>	TGK-1 <a href="http://eng.tgc1.ru">http://eng.tgc1.ru</a>
OGK-4 <a href="http://ogk-4.ru/en">http://ogk-4.ru/en</a>	TGK-2 <a href="http://www.tgc-2.ru/en">http://www.tgc-2.ru/en</a>
Enel OGK-5 <a href="http://www.ogk-5.com/en">http://www.ogk-5.com/en</a>	Mosenergo/TGK-3 <a href="http://www.mosenergo.ru">http://www.mosenergo.ru</a>

Quadra/TGK-4 <http://www.quadra.ru>  
TGK-5 <http://www.tgc5.ru/eng.html>  
TGK-6  
<http://www.tgc6.ru/index.php?id=news&L=1>  
Volzhskaya TGK/TGK-7  
<http://www.en.votgk.ru>

TGK-8 (Lukoil Ecoenergo) <http://ekoenergo.lukoil.ru>  
TGK-9 <http://www.tgk9.ru/eng.html>  
Fortum/TGK-10 <http://www.fortum.ru>  
TGK-11 <http://www.eng.tgk11.com>  
Kuzbassenergo/TGK-12  
<http://www.kuzbassenergo.ru/eng>  
Yenisei TGK/TGK-13 <http://eng.tgk13.ru>  
TGK-14 <http://www.tgk-14.com>

### **Trade Events**

Russia Power  
March 5-7, 2012  
*Moscow*  
<http://www.russia-power.org>

Power Industry and Electrical Engineering  
May 22-25, 2012  
*St. Petersburg*  
<http://www.restec.ru/exhibitions/featured/power/index.en.html>

Power Efficiency. Energy Saving. Innovative Technologies & Equipment 2012  
June 4-6, 2012  
*St. Petersburg*  
<http://www.en.farexpo.ru/energy2012/exhibition/about>

AtomExpo  
June 4-6, 2012  
*Moscow*  
<http://2012.atomexpo.ru/en>

Electric and Power Infrastructure of the South of Russia  
October 16-18, 2012  
*Krasnodar, Russia*  
<http://ides-expo.ru/home/exhibitions/epis.aspx?lang=en-GB>

Power Electronics, Energy and Energy Saving  
November 27-29, 2012  
*Moscow*  
<http://power.primexpo.com>

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Russia, with a population of over 140 million and a seriously inefficient energy infrastructure is one of the most promising markets for energy efficiency products and services. Russia's President Dmitry Medvedev identified energy efficiency as a top priority for modernizing the Russian economy and affirmed that energy efficiency and conservation are among the five strategic priorities for Russia's modernization.

Russia is aiming to reduce GDP energy intensity 40% by 2020 from its 2007 level. GDP energy intensity is currently 2.5 - 3.5 times higher than countries in Europe. Russia currently ranks among the top 25 energy intensive countries in seven major areas of economic activity: agriculture, forestry, construction, manufacturing, transport, storage and services.

New energy efficiency legislation in Russia came into force in 2009, which established standards for the regulation of energy consumption to increase efficiency and encourage energy savings, and provided for various amendments to existing legislation for enforcing energy-saving rules. For example, the law introduced restrictions on the sale of incandescent light bulbs and set requirements for providing energy efficiency information on product labels, and also set out guidelines on mandatory commercial inventories of energy resources, energy efficiency of new buildings, and reductions in spending on energy resources. The law also introduced mandatory energy evaluations for the most energy-intensive entities and set out guidelines for transition to long-term tariff regulation and the establishment of a common inter-ministerial energy efficiency information and analysis system.

Also in 2009, the Russian Government implemented a new climate change policy. With the primary goal of lowering greenhouse gas emissions, the policy acknowledged the mitigation of climate change as one of the major long-term elements of security of the Russian Federation and placed global climate change, both in its national and international dimensions, among the Russian Federation's policy priorities. In accordance with this policy, all regional and municipal programs must increase the use of energy efficient technologies and secondary energy sources and/or renewable energy sources with specific energy saving targets to be met within the next 15 years.

The major generating company in Russia in the field of export and import of electric power Inter RAO UES is committed to improving energy efficiency of energy facilities through development of innovative solutions and use of energy-saving technologies. Target energy efficiency built into the 2015 corporate development strategy is focused on meeting the following requirements: improving fuel burning efficiency by a factor of 1.5; reducing self-consumed energy by 3–4%; improving environmental properties of production assets; developing renewable energy technologies; and creating a competitive machine building cluster.

Moscow energy saving program for 2012-2016 and until 2020 was approved in 2011 and is an integral cross-sectoral program interconnecting energy efficiency efforts of all Moscow authorities, institutes, enterprises and businesses. According to the Mayor of Moscow Sergey Sobyenin, the program encompasses 40,000 residential houses and 75



non-residential buildings. The target of the program is to reduce energy intensity of economics by 2020 by no less than 40%, compared to 2007. According to statistics, compared to other regions Moscow is remarkable for the lowest energy intensity of gross regional product, however energy intensity of residential and communal utilities of Moscow is lagging behind the largest cities in the world, which testifies high potential in the sector. 201.8 billion rubles have been allocated for the program implementation, where 4 billion comes from the city budget and about 180 billion – from non-budgetary sources.

The General Assembly of the United Nations is implementing a number of projects with the support of Global Environmental Facility in Russia. In 2012 GEF will invest up to \$2.5 million in pilot energy projects on lighting at schools in Moscow and at residential buildings in a number of regions (North-West of Russia). After the completion of works at schools, their electric energy costs will be reduced by minimum 30%. In addition to that, it is planned to re-equip street lighting in the town of Sarov (Nizhegorodskaya oblast) in order to decrease energy losses.

UN energy efficiency construction project will be implemented in Pskovskaya oblast. A project of the UN Development program will be performed together with the Global Environmental Fund and be dedicated to "Energy efficiency of buildings in the North-West of Russia". The target of the project is to develop local potential and demonstrate local solutions for increasing energy efficiency during the construction and maintenance of buildings. The project in Pskovskaya oblast will develop a normative and legal basis for energy saving program implementation and the establishment of an institutional energy efficiency management model for municipal bodies. As a result, favorable conditions and legal mechanisms to secure energy efficiency of buildings at regional and local levels should occur.

Russia is demonstrating its interest in implementing smart grid technology through cooperation with the United States under the auspices of the U.S.-Russia Bilateral Presidential Commission's Energy Working Group. This cooperation will help Russian utilities reduce harmful emissions by enhancing their ability to help consumers use energy more efficiently; integrate and deliver renewable energy; and more efficiently transmit and deliver electricity to consumers.

In 2010, the Energy Working Group, including USAID and the U.S. Department of Energy and their Russian counterparts, developed a two-year work plan during visits by Russian industry, technical and government officials to Texas and Washington, D.C.

The work plan encompasses utility partnership exchanges, business roundtables, and a joint assessment of regulatory and other barriers to the introduction of smart grid technologies and systems. From these exchanges, it became clear that U.S. companies are enthusiastic about exploring opportunities in Russia as this large country modernizes its transmission and distribution infrastructure.

In May 2011, San Diego Gas & Electric Company, the city of San Diego, Belgorodenergo, (the Belgorod region energy company) and the Belgorod Regional Administration signed a Memorandum of Understanding to cooperate on the deployment of smart grid technologies. Also in 2011, U.S. Secretary of Energy Dr. Steven Chu and Russian Minister of Energy Sergie Shmatko agreed to expand the program.

The Interregional Grid Distribution Company (MRSK), a major Russian electricity distributor, is running and developing a smart grid as a pilot project. This project in the city of Belgorod in Belgorod Oblast near the Ukrainian border, builds on MRSK's project of the past few years of improving city street lighting controls, automating distribution networks, and installing neuron automated electricity metering systems. The project began with two districts of Belgorod and will expand to the entire city in three to five years, and eventually smart grid elements will be installed throughout the Oblast. Representatives from Moscow's Information Technologies Company note that Belgorod now has 35,000 smart meters and an installed integrator.

The major Russian transmission grid operator, Federal Grid Company of Unified Energy System (FSK), has developed a five-year plan, the first three years of which will be dedicated to developing smart grid modeling along with a regulatory framework, and the development of new equipment and training. In the second phase of the plan, FSK will develop several pilot projects.

Green building is a nascent sector in the Russian economy, though it is increasing in popularity as domestic consumer energy prices rise and people and organizations become more conscious of spending and the positive effects of a healthier environment. Following approval of the new Federal Law "On Energy Savings and Improving Energy Efficiency" in November 2009, the nascent Russian green building community has been playing an increasingly active role in promoting awareness of green building concepts in the traditional construction sector, and supporting expansion of green standards.

The Russian Green Building Council (RuGBC) created in November 2009 is the key catalyst and is playing a leading role in green standards implementation for the industry. Russia's Ministry of Natural Resources plans long-term collaboration with RuGBC and intends to develop a program of joint events and courses.

Over the past year, the RuGBC has built a strong membership base (120 members) on a philosophy of 'standard neutrality' and offers equal support for the rating tools relevant to the Russian market – LEED, BREEAM, DGNB and the emerging Russian National Standard. RuGBC has also supported the development of green standards and sustainable design and construction methods for the Sochi 2014 Winter Olympic Games, resulting in several international fact-finding missions and seminars, as well as the adoption of BREEAM and LEED as standards for top venues.

In 2010, the first two Russia 'green' buildings received internationally accepted certifications – Ducat Palace, an A class office building and retail complex, developed by Hines, received BREEAM "very good," and the Swedish SKF bearing factory in the Tver Region received LEED NC v.2.2 Gold. Another 14 buildings are registered for BREEAM certification, 6 are registered for LEED and several pilots are being considered for DGNB.

In addition to certified buildings, there is the emergence of buildings with "green features". In 2010, the first "Green Awards" competition took place in St. Petersburg as part of the ProEstate Investment Forum. The top award went to the headquarters of WWF Russia – Panda House. The emergence of these initial projects is an important milestone in Russian green market transformation.

Some of the perceived drivers of sustainable property development in Russia include:

- The increasing perception by investors that green certification (BREEAM, LEED or DGNB) represents lower investment risk based on evidence of lower voids in these buildings;
- Demand from international corporations for green offices due to international policies and standards;
- Increasing government-led initiatives towards sustainability – energy efficiency and innovation;
- The attractive prospect of higher rental and sales levels in green certified buildings due to a growing demand, following increased awareness of green building concepts and anticipated increases in energy prices.

## **Sub-Sector Best Prospects**

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Road Infrastructure: Due to the rapid increase in the number of private vehicles in Russia, road transportation is a growing energy consumer. Products needed include road surfaces that lower CO2 emissions, mass transit systems, traffic management and sustainable asphalt paving.

Environmental Technologies: The share of domestic manufacturers in the Russian environmental technologies market is about 40%, which opens broad avenues for foreign imports, including U.S. made technologies and products. Foreign suppliers in Europe and China are already active in water treatment and waste management. The key environmental technologies market segments include solid waste management, water treatment, air purification, protection and rational use of lands.

Water and Wastewater Management: Russia has a total of 8,801 water supply systems, with centralized water supply used by 106,500,000 people resident in 1,092 towns and 1,872 urban-type settlements. The total length of water mains in Russia's population centers is 463,000 kilometers, including 200,900 kilometers in towns (43%). The capacity of water supply systems is estimated at 90,000,000 cubic meters per day, with towns accounting for about 71,000,000 cubic meters per day (79%).

The majority (95%) of municipalities own both the water supply and sanitation properties and manage them as municipal unitary enterprises, or “vodokanals.” The federal government owns the water supply and sanitation systems in a few cities (including Moscow and St. Petersburg), but it has limited capacity and is seeking U.S. technologies and partnerships. A recent trend is the privatization of water facilities, which is generating new opportunities for the private sector. Private sector ownership is expected to grow from the current 10% of the urban population to 16% in the near future.

Renewable Energy: According to current assessments, the economic potential of renewable energy in Russia amounts to at least 4.5 billion tons of coal equivalent used per year. A Presidential decree set a target of 4.5% from the current 1% renewables use (not including large hydropower projects with generation capacity greater than 25MW) by 2020. The decree mainly includes the potential for more solar and wind energy. In order to achieve the projected volumes of electricity production, commissioning of generating facilities (small hydroelectric power plants, wind, tide, geothermal power plants, thermal power plants) using biomass as one of the fuels with an aggregate installed capacity up to 20 GW should be realized within the stated period.

Green building: Green building includes products ranging from green architecture to energy-conserving materials and fixtures (toilets, light bulbs, appliances). Possibilities for future growth areas include insulation and heating systems. Non-toxic building products will likely gain popularity. “Smart home” technology should also attract a great deal of interest from Russian consumers.

Prospective buyers are in fact all construction firms, contractors, and any business whose plans include construction or renovation of a local facility. Non-Russian companies are more likely to use energy-efficient construction than Russian companies. Many foreign investors, especially European investors, will lend money for construction only if it meets certain environmental requirements, particularly sustainability and efficiency. European and American companies are also more likely to undertake green projects than Russian firms. For these reasons, non-Russian companies located in Russia offer opportunities to providers of energy-efficient and environmentally responsible building supplies and services.

## **Opportunities**

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Russia presents lucrative opportunities for U.S. environmental technologies companies to improve energy efficiency including energy storage, waste-to-energy, road construction materials, green buildings, smart grids, renewables; and environmental technologies including biofuels, biomass, and water and waste treatment. As of today energy efficiency and energy saving are occupying the leading position within the five priorities of the Committee on modernization and technological development of economics under the aegis of the President of the Russian Federation created in 2009. The activity of the Committee in cooperation with leading Russian and foreign scientific and commercial organizations is, among others, aimed at complex implementation of six energy efficiency and energy saving projects: «Count, save and pay», «New light», «Energy efficient block», «Small complex hydro power», «Innovative energy» and the project of introduction of energy efficient technologies at state establishments.

Opportunities for green construction in Russia are dependent upon overall construction nationwide. Construction is expected to see growth in 2012, as the economy improves after three years of contraction, the country prepares for the 2014 Olympic Games in Sochi, and the 2018 FIFA World Cup, and as President Medvedev moves along with the Skolkovo technology park project.

Among future projects, the technology park at Skolkovo in particular should prove to be fertile ground for green building and technology, as it will be an opportunity for Russia to showcase its modernization efforts.

Sochi Olympic Games construction is another opportunity for American suppliers of green building materials and services to showcase their products. Specifically, the International Olympic Committee has mandated that certain standards be met. Ten of the 202 planned Olympic buildings will be either LEED or BREEM certified, and 150 objects will be certified by Olympstroy corporate standards for energy efficiency.

In December 2010, Russia won its bid with FIFA to host the 2018 World Cup tournament and is planning the construction of 16 state-of-the-art stadiums in 13 cities, mostly in Western Russia. Each stadium will have a price-tag between \$70- \$300 million.

Further, there are several large-scale green sustainable projects that will be soon built in Russia and may present some opportunities for U.S. exporters:

- **NCC** (<http://www.ncc-spb.ru/en>) is building a housing development in St. Petersburg called Swedish Krona (to be completed in Q4, 2014). This will be an apartment block area with a park, playgrounds, sport facilities, shops and parking. NCC is planning to use various new construction technologies, including energy efficient materials, to build a comfortable city living place that meets European standards.
- **BTK** ([www.btkdevelopment.ru](http://www.btkdevelopment.ru)) is in the process of developing a project for an energy efficient office building in the center of St. Petersburg (2000 sq. meters). The company is planning to build this project according to LEED standards and receive the appropriate certification.
- **Setl City** (<http://www.setlcity.ru/en/>) is beginning to develop a project called Sem Stolits ([www.7stolic.ru](http://www.7stolic.ru)), which will utilize the principles of energy efficiency including a collector heating and water supply system, specially designed sanitation facilities and energy-efficient insulation and windows (to be completed within 15-17 years).

## Web Resources

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### Organizations

Russian Ministry of Energy: <http://www.minenergo.gov.ru>

Russia Energy Agency: <http://rosenergo.gov.ru>

Inter RAO UES: <http://www.interrao.ru/en>

Federal Grid Company: <http://fsk-ees.ru/eng>

System Operator: <http://www.so-cdu.ru>

Ecostandard, Ecological services and expertise - 1<sup>st</sup> organization certified by U.S. Green Building Council: <http://www.ecostandard.ru/en>

Green Building Council Russia: <http://www.rugbc.org/en>

New Law on Energy Efficiency:  
<http://www.bakermckenzie.com/ALRussiaNewDevelopmentsSavingEnergyJan10>

Skolkovo Innovation Centre: [http://www.sk.ru/ru-RU.aspx?sc\\_Lang=en](http://www.sk.ru/ru-RU.aspx?sc_Lang=en)

### Trade Events

Mosbuild

April 2-5/10-13, 2012

Moscow

<http://www.mosbuild.com>

Forum Intelligent Building 2012: Energy Efficiency, Service management

April 19-20, 2012

*Moscow*

<http://www.ahconferences.com/conferences/?conf=592&lang=en>

Energy Efficiency in Housing & Municipal Sectors

April 26-27, 2012

*Moscow*

<http://enef-gkh.ru>

Power Efficiency. Energy Saving. Innovative Technologies & Equipment 2012

June 4-6, 2012

*St. Petersburg*

<http://www.en.farexpo.ru/energy2012/exhibition/about/>

Ecwatech (International Water Forum)

June 5-8, 2012

*Moscow*

<http://www.ecwatech.ru/index.php?lang=en&PHPSESSID=0172a3d5b8c379d8b12ae0055161cb53>

City Build 2012

October 16-18, 2012

*Moscow*

<http://www.city-build.ru/home.aspx?lang=en-GB>

High-Tech Building 2012

October 30 - November 1, 2012

*Moscow*

[http://www.hitechbuilding.ru/hthb/green\\_building](http://www.hitechbuilding.ru/hthb/green_building)

Power Electronics, Energy and Energy Saving

November 27-29, 2012

*Moscow*

<http://power.primexpo.com>

### **Publications**

Rosstat Publications: [http://www.gks.ru/bgd/regl/b10\\_12/Main.htm](http://www.gks.ru/bgd/regl/b10_12/Main.htm)

Zhilaya Sreda: <http://www.finestreet.ru/magazine/home>

Beautiful Houses: <http://www.houses.ru>

Tepliy Dom: <http://www.teplydom.com>

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## Medical Equipment

### Overview

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Unit: USD Thousands

	2010	2011	2012 (estimate)	2013 (estimate)
Total Market Size	3,500,000	3,700,000	3,800,000	4,060,000
Total Local Production	530,000	600,000	620,000	700,000
Total Exports	90,000	120,000	140,000	170,000
Total Imports	3,060,000	3,220,000	3,320,000	3,530,000
Imports from the U.S.*	170,000	190,000	200,000	300,000

Source: Remedium and industry experts; Global Trade Atlas

Russia has instituted a comprehensive reform of its healthcare system and healthcare is “Priority #1” in the government’s new national priority projects. Russia’s healthcare system is evolving rapidly and this is creating many promising areas for U.S. medical equipment exports. It is currently estimated that only 20% of the Russian population of 142 million has access to quality healthcare. The majority of hospitals and polyclinics are public and belong to federal, regional or local governments.

At the moment, the two major sources of public healthcare funding - mandatory insurance funds (30%) and spending supported by federal and regional budgets (70%) - do not cover all healthcare expenses. As a result, a significant portion of overall (public and private) health care spending (about 20%) is covered out of patients’ pockets. Voluntary healthcare insurance programs account for approximately one-third of the total private healthcare expenditures. According to long-term reform plans, mandatory insurance funds will serve as the main source of healthcare funding, providing transparency and control over cash flow within the system.

The Russian medical equipment and supply market is one of the fastest growing sectors of the economy. There are two factors that explain this high potential. First, there is an unsatisfied deferred demand for medical equipment. Second, the Russian government pays high attention to this field, and makes efforts to make it more transparent and function efficiently. For sure those two factors are closely connected because the Russian government decides which medical equipment to buy, the fact that is shaping the demand for those products. In order to support the healthcare sector, a number of government programs were implemented: the reforms of the Mandatory Healthcare System (adoption of the law “ About Mandatory Healthcare Insurance” on January 1, 2011), the National Health Project, the concepts of healthcare development (adoption of the strategic document “Healthcare Through 2020”).

Despite the severe economic downturn that began in 2008, in 2009 the total volume of medical equipment and supplies in Russia grew 38% to reach \$3.3 billion. This puts the market among the 20 fastest growing markets in the world, yet annual per capita spending is a very low \$23. Industry experts predict that the market will grow at a rate of 5.5% per year, reaching \$4.3 billion by 2014 or \$31 per capita.

Almost two-thirds of the medical equipment and devices used in public clinics and hospitals are obsolete and need replacement. There are basically two major problems

that the Russian healthcare system faces. First the healthcare facilities are in a very poor condition. According to data of the Russian Federal Statistic Service: 2% of the medical facilities are in the hazardous condition, 8.5% do not have cold and hot water, 32.5% do not have hot water, more than 10% do not have central heating, 11.2% do not have sewerage system and 6.7% do not have telephone connections. In order to solve these problems, the regional parts of the budgets allocated for modernization will be used. Overall, \$15.3 M will be allocated for these needs in 2011-2012. Second, new medical equipment will be needed for those renovated medical facilities, which will drive the demand for medical equipment.

The Federal Service on Surveillance in Healthcare and Social Development of the Russian Federation (Rosdravnadzor) has approved over 20,000 medical products and devices for use in treatments, 60% of which are locally manufactured (appliances - 3,000; equipment - 1,000; instruments - 7,000; glass and polymer medical products - 700). About 1200 Russian enterprises, 90% privately held, manufacture an array of medical devices, including apparatus and appliances (45%), medical instruments (10%), medical equipment (9%), glass and polymer medical products (10%), other medical products (26%).

According to various sources, imported medical devices constitute 60% of the Russian market. The statistical data show that 40-45% of imports come from Germany, 20-25% from the U.S., 10% from Japan and 5% each from Italy and France. For the last three years, a growing number of cheap analogues from China and Pakistan have entered the Russian market in large volumes.

Russian medical equipment manufacturers are making some progress in several traditional and developing segments. For that purpose the Ministry of Industry and Trade of Russia wrote a program called “Development of the pharmaceutical and medical equipment industry in the Russian Federation until 2020 and further perspective”, which was adopted on February 17, 2011. This program is divided in two stages: years 2011-2015 and years 2016-2020. By the end of the program the percent of medical equipment manufactured by the Russian producers should increase from 18-20% to 40%. This effect can be achieved by foreign companies, who localize their production. There are many benefits to production localization. First, it is the construction of new and modern manufacturing facilities. Second, it is the creation of new jobs in Russia. Third, it is the evolvement of new technologies. Also, the manufacturer who works in the Russian market better understands the needs of the consumer and because of that, manufactures a product that meets the demands and specifics of the Russian market. Additionally the equipment manufactured in Russia will be customer friendly; it is especially true for monitoring equipment that will have the Russian interface. And finally, the local production will facilitate the creation of a more transparent market. It will be very difficult to create grey-schemes: the pricing becomes very clear, it is evident who acts as a seller and who acts as a buyer. So basically the localization solves most of the problems in the procurement of medical equipment.

The best example of production localization is the following: at the end of 2009, GE Healthcare and one of the leading local manufacturers, Medical Technologies Limited (MTL), signed a strategic partnership agreement. The first stage was marked by the production of Computer Tomograph (CT) called BrightSpeed Elite, which was installed in May 2010 in the Moscow hospital 67. In April 2011 GE Healthcare and State Corporation “Rostechnologie”, represented by OAO “RT-Biotechprom” and MTL



presented the first serial production of CTs. The plan was to make more than 16 units in 2011 and approximately 100 units in 2012. The price of those CTs is much less than of the imported ones and it will decrease even more when local Russian manufacturers, not by GE Healthcare, will supply parts. This shift is planned for the period 2012-2015.

There are also some European examples. The Ural Optical and Mechanical plant bought a license from the German company Siemens to produce a computer tomograph (CT). Cooperation between the JSC Ural Priborostroitelny plant and Italian manufacturers resulted in production of an ultrasound scanning instrument that won one of the tenders for the National Health Project. Finally, the Izomed company successfully manufactures another ultrasound diagnostic instrument in cooperation with a Japanese company. Such joint cooperation can bring accessible, innovative and modern healthcare technologies to support Russian government projects modernizing healthcare in various disease areas.

Meanwhile there are particular types of medical devices produced in Russia. First, most routine X-ray diagnostic procedures are done on Russian-made equipment. Apart from that, the Russian medical device market is well represented by monitors for various uses, including those for intensive therapy, surgical operations, pregnancy and at the patient's bedside. Also, Russian companies manufacture certain models of electrocardiographs, encephalographs and rheographs.

A particular focus of Russian manufacturers (usually 15% of the products made at any given plant) is on producing surgical tables, lighting systems, sterilization equipment, cameras for disinfection, beds and medical furniture. The Russian manufacturer KB Vzlet developed the "Kosmea" apparatus used for cardiac artery bypass surgery that works without an artificial blood-circulation apparatus. "Trekpor Technology" Holdings developed an industrial magnetic-resonance accelerator for the production of membranes.

Russian government organizations are the main users of medical equipment; approximately 80% of medical equipment is sold to them. Private hospitals and patients themselves represent the other 20%. Because of that uneven distribution, the government procurement programs ("tenders") play a crucial role in this market.

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Despite recent breakthroughs and the fact that locally made medical equipment is two to four times cheaper than imported equipment, Russian production still lags behind the majority of developed countries. Thus, Russia is still dependent on imports for a significant number of medical equipment industry sub-sectors, especially those requiring large investments in R&D, innovative technologies and automation. The best prospects for medical equipment include:

- CTs
- Blood pressure instruments and equipment
- Respirators
- Endoscopes
- Ultrasound scanning equipment
- Syringes, catheters, dental disposables, ophthalmological equipment
- X-ray equipment for general medicine, surgery and veterinary

- Artificial kidney complex components (oxygenators and dialysis machines)

## Opportunities

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Recent reforms in healthcare have created opportunities for U.S. medical equipment suppliers. In September 2005, President Putin announced that healthcare would be one of four key national projects, along with education, housing and agriculture. President Dmitry Medvedev (first Deputy Prime Minister beginning in November of that year) was in charge of these projects. The total federal budget allocated under the National Health Project in 2006 was \$4 billion (excluding loans and state guarantees) and nearly \$5 billion in each of the following years.

The National Health Project is designed to significantly improve the Russian healthcare sector, giving impetus to both the pharmaceutical and medical equipment markets. The implementation of the project is supported by laws and regulations, which will modify the healthcare system structure over the long term. Key laws and regulations include laws on state guarantees for medical assistance, mandatory health insurance, and standards of medical assistance. In 2010 the National Health Project was financed at \$4.8 billion. In 2011 the financing was \$3.9 B, in 2012 - \$3.8 B, in 2013 – \$2.6 B. The significant decline in the figures does not mean that the healthcare spending will decrease, because the numbers mentioned above will be taken only from the federal budget, the rest of the money, intended for providing mandatory healthcare insurance will be drawn from the Mandatory Healthcare Insurance fund. Since contribution payments of all working people to the Mandatory Healthcare Insurance Fund increased by 2%, in 2011-2012 this Fund will receive additional \$15.3 billion. In 2010 each region developed its own program of healthcare development.

There are other areas that will receive financial support from the Russian government. The development of Nuclear Medicine will be financed by \$4.1 B and the major consumer will be the Russian government, the fact that will insure this project. According to the National Oncology program, approximately \$1.2 B will be invested in this area.

According to “Healthcare through 2020”, a document developed by the Ministry of Healthcare and Social Development”, Russian citizens will receive high quality medical care, which will be standardized through all of Russia, new effective medical procedures will be introduced, and new medical equipment will be supplied to medical institutions. This document is closely connected with the “Concepts of long-term social-economic development of the Russian Federation until 2011”, which was adopted in 2008 and revised later in 2009. According to this document the expenses for healthcare should be 5.7% of GDP. So the medical equipment market should show the best results by the 2013-2016 and reach \$15 B by 2020.

WTO accession will be also beneficial for foreign exports to Russia because after the full implementation of WTO accession commitments, tariffs for medical equipment will be from 0 to 7%; currently this figure is up to 15%.

## Web Resources

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### Organizations

Ministry of Health and Social Development: <http://www.minzdravsoc.ru/eng>

Russian Federal Service on Surveillance in Healthcare and Social Development:  
<http://www.roszdravnadzor.ru>

**Trade Events**

Zdravookhranenie, International Exhibition of Medical Equipment and Drugs  
December 3-7, 2012  
Moscow  
<http://www.zdravo-expo.ru/en>

**Commercial Service Contact**

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## Refinery Equipment

### Overview

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Unit: USD thousands

	2010	2011	2012 (estimate)	2013 (estimate)
<b>Total Market Size</b>	4,000,000	6,000,000	8,000,000	8,000,000
<b>Total Local Production</b>	2,000,000	3,000,000	4,500,000	4,500,000
<b>Total Imports</b>	2,000,000	3,000,000	3,500,000	3,500,000
<b>Imports from the U.S.</b>	800,000	1,000,000	1,200,000	1,200,000

Source: CS Russia estimates

Russia ranks among the top ten countries in proven oil reserves, and is the world's largest exporter of oil and natural gas. Proceeds from the oil and gas industry account for almost half of Russian federal budget revenues, most of it coming from exports of crude oil and natural gas. Lately, however, a strong emphasis has been placed on the necessity to develop the Russian oil and gas refining and petrochemical industry, which should reduce Russia's dependence on global crude oil and gas prices. The plan is not only to fully employ existing domestic refining capacities, but also to gradually build up and upgrade existing refineries and build new ones. In perspective, this strategy should lead Russian companies to focus on the export of processed petroleum products rather than crude oil and gas, and to meet the increasing domestic need for high quality petroleum and petrochemical products.

One of the major incentives for the rapid technological upgrade of Russian refineries is the official ban on the production of low-quality fuels. However, the ban on production of Euro-2 fuel, originally scheduled for December 31, 2010, has been postponed twice, because most Russian refineries failed to upgrade their facilities to the level necessary for the production of Euro-3 fuel. At the request of Russian refining companies, the government is likely to postpone the introduction of Euro-3 fuel emission standards until 2013, to be followed by the introduction of Euro-4 in 2014 and Euro-5 in 2015. This decision will be tied to the obligation imposed on all major refining companies to upgrade their facilities in order to comply with new requirements. This, as well as the earlier mentioned ambition of Russian petroleum producers to export more refined products to the international marketplace will inevitably require intensive modernization and capacity increase of existing refining facilities.

Another incentive for increasing refining capacity was the Russian government's decision in August 2011 to develop a new system of duties on their oil exports known as the 60/66 program. The government lowered export duties of crude oil from 65% to 60% - the 60 in the 60/66 program. Since oil deposits in Russia are becoming more difficult to access due to their location in harsh environments, it was slowly becoming unprofitable to explore for new oilfields and extract oil at the current duty rates. By lowering the duty, increased exploration and extracting activity is encouraged by making it a more profitable enterprise.

Because this lowering in duties will lead to a major loss of government revenue, the export duty on refined products was changed to 66%. This represents an increase in duty rates for most refined crude products, especially heavy fuel oils. However, the rate for lighter distillates, which make up only a small percentage of refined crude exports, actually falls slightly. Therefore this policy is intended to 1) increase production by making it more profitable for oil exploration and extraction, 2) encourage more advanced refining by lowering duties on higher quality refined oil products, and 3) make the duty revision revenue neutral, at worst, by increasing duties on oil exports with very low levels of refining.

Thus, Russia remains one of the few regions that continue to look at major investment programs in the downstream sector. A reason for this trend is the relatively small investments made in the sector over the past decades. According to varying assessments, a total technical upgrade of the Russian refining industry requires \$30 to 50 billion. Despite ambitious plans adopted in 2008, when the Government of Russia initiated a large scale campaign on technological upgrade of country's refining capacity, actual expenditures by major Russian oil companies for this purpose, according to Russia's Ministry of Energy (MoE) recent estimates, did not exceed \$6 billion. According to the MoE officials, a sharp increase in investment activity in this area has been planned for 2011-2015.

#### **Sub-Sector Best Prospects**

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The following general areas can be identified as most promising:

- Emphasis on secondary refining upgrades to increase the depth of refining, from current levels of 60% up to 80% and above, including development and installation of new visbreakers and introduction of delayed coking processes;
- Upgrade of primary (top) refining units with the objective of increasing light-end product bleeding and reducing electricity consumption;
- Optimization of commercial motor gasoline production, and upgrade of catalytic reformers to produce high-octane components of motor gasoline;
- Introduction and/or upgrade of low-sulfur diesel fuel production units;
- Upgrade of catalytic cracking units to increase the yield and RONC of gasoline and improve energy-efficiency in this process;
- Transfer of certain types of fuel hydrogenation units to light hydro cracking technology, in order to increase diesel fuel output;
- Transfer of decommissioned catalytic reformers to isomerization processes of C5-C6 hydrocarbons to produce high-octane components of motor gasoline;
- Adaptation of atmospheric distillation and thermal cracking units to visbreakers;
- Optimization of internal refinery energy systems, including installation of energy-efficient, stand-alone gas-turbine and diesel power plants where appropriate to lower refineries' power consumption costs;
- Upgrade of storage and intermediate reservoirs;
- Cogeneration of refinery heavy bottoms into steam and electricity, or other relevant utilization technologies; and

- Introduction of modern integrated process control and accounting systems, including Distributed Control Systems (DCS).

Smaller oil producing companies are looking for opportunities to process crude oil right at the production site, which would allow them to increase the value of their product and reduce transportation expenses. This provides opportunities for U.S. manufacturers of equipment for mini refineries. Companies providing turn-key solutions have the best prospects.

## Opportunities

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As of today, Russia has about 30 major and over 80 mini oil refineries with a total processing capacity of 5.6 million b/d. In 2010, the Russian refining industry produced 36 million tons of gasoline, 70 million tons of diesel fuel, and 70 million tons of fuel oil.

Most of the Russian oil refineries were built in the two postwar decades: 16 plants, more than half of those currently active, were commissioned between 1945 and 1965. Only two refineries, with the total capacity of about 70,000 b/d, were launched in Russia after the collapse of the Soviet Union. Thus, overall, plants built during the Soviet time are currently recycling about 98% of oil, and until recently, only a few had gone through significant technological upgrade. It is not surprising, therefore, that experts unanimously admit a high level of depreciation (60-75%) and use of old technologies in the Russian refining industry. Despite certain positive changes that have taken place recently, the quality of the product leaves much to be desired and the depth of oil refining is still extremely low: The average depth of oil processing in Russia does not exceed 72%. In addition, the hydro skimming capacity of the Russian refining industry exceeds its capacity to produce refined petroleum products, which is explained by the fact that the Soviet oil refining industry was focused on the production of diesel fuel and fuel oil, while demand for gasoline was relatively low. Today, companies produce more low quality petroleum half-stuff than they can process to the finished product level, and therefore, often have to export the semi-finished product at a discounted price.

The period of economic reforms in the 1990s did not bring any positive changes to the Russian oil refining and petrochemical industries. In fact, due to the sharp decrease in domestic oil consumption, these years witnessed a significant decline in the actual volume of processed materials. In 2000, Russian refineries processed only 168.7 million tons of crude material, thus making no use of almost half of their total capacity (296 million tons per year).

“Contemporary history” of the Russian refining industry, as well as the prospects for its future, are to a big extent conditioned by the vertically integrated character of the sector: About 90% of oil refining capacities are controlled by ten major vertically integrated oil and gas companies.

According to varying assessments, technical upgrades in the industry require \$30 to \$50 billion. Most of this burden falls on the oil majors. With the pay-back period for investments in technological upgrades of refining facilities being 5 to 7 years, and crude oil production and transport paying back much quicker, companies used to take on refining projects based on what remained in their budgets. However, recent efforts of the Russian government made Russian oil majors change those policies and start allocating substantial resources to oil refining. The result of this policy change is the

start of a broad-scale reconstruction of existing Russian refineries and construction of new ones, which creates opportunities for U.S. technologies and equipment suppliers.

U.S. engineering services and equipment suppliers enjoy a relatively sound position in the Russian import market, and can look forward to opportunities to increase their share further if new projects become sustainable, and if their market development efforts are commensurate with the market's potential.

## Web Resources

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### Trade Events

The Projects Forum 2012

April 16-17, 2012

*Moscow*

[http://www.europetro.com/en/projects\\_forum\\_2012](http://www.europetro.com/en/projects_forum_2012)

Gas. Oil. Technologies, 19<sup>th</sup> International Specialized Exhibition

May 22-25, 2012

*Ufa, Russia*

<http://gntexpo.ru/en/index.htm>

NEFTEGAZ

June 25-29, 2012

*Moscow*

<http://www.neftegaz-expo.ru/en/>

Oil. Gas. Petrochemistry. 19<sup>th</sup> International Specialized Exhibition

September 5-7, 2012

*Kazan, Russia*

<http://www.oilexpo.ru/eng>

### References & Key Contacts

Information on Russian and Central Asian refinery projects:

<http://abarrelfull.wikidot.com/russian-and-central-asia-refinery-projects>

Rosneft refineries: <http://www.rosneft.com/Downstream/refining>

LUKOIL refineries: [http://lukoil.com/static\\_6\\_5id\\_257\\_.html](http://lukoil.com/static_6_5id_257_.html)

Gazprom-Neft refineries: [http://www.gazprom-neft.com/business/petroleum\\_refining.php](http://www.gazprom-neft.com/business/petroleum_refining.php)

TNK-BP refineries: <http://tnk-bp.com/en/production/enterprises/russia/#type:processing>

Bashneft refineries: <http://www.bashneft.com/processing/>

The Taneco Refining and Petrochemical Complex: <http://www.taneco-npz.com/en/about/index.php>

The Kirishi Refinery: <http://www.surgutneftegas.ru/en/oil/about/>

Russian Ministry of Energy

Tel: +7 (495) 631 9858  
[minenergo@minenergo.gov.ru](mailto:minenergo@minenergo.gov.ru)  
<http://www.minenergo.gov.ru>

Russian Association of Oil and Gas Equipment Producers  
Tel: +7 (495) 514 5856  
[info@n-g-k.ru](mailto:info@n-g-k.ru)  
<http://www.eng.derrick.ru>

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## Safety and Security Equipment

### Overview

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Unit: USD thousands

	2010	2011	2012 (estimate)	2013 (estimate)
Total Market	6,180,000	7,008,000	8,059,000	9,267,850
Services	4,200,000	4,830,000	5,554,000	6,387,100
Equipment	1,980,000	2,178,000	2,505,000	2,880,750
Local Production	600,000	660,000	759,000	113,850
Exports	400,000	440,000	506,000	581,900
Imports	1,780,000	1,958,000	2,252,000	2,589,800
Imports from the U.S.	90,000	100,000	115,000	132,250

The Russian market for safety and security has the potential for steady development because of the country's vast infrastructure, large area, and number of potential security threats.

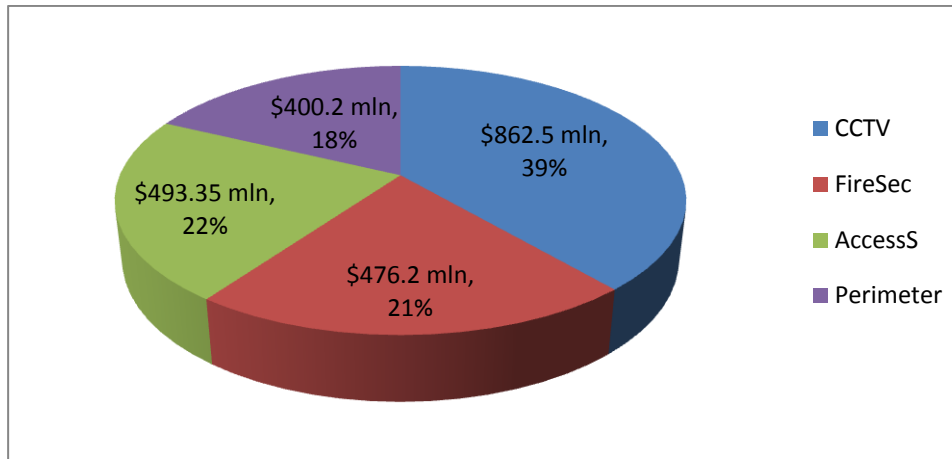
In 2010, the safety and security market entered the stage of steady growth letting the companies recover losses incurred in the previous periods by the global financial crisis. In 2010, all the major construction projects and new ones were resumed and launched. This market segment directly correlates with construction and transportation market segment, and thus is very dependent on the financial situation in those two areas. In 2011, the safety and security market enjoyed a double digit growth of 15% supported by newly implemented safety initiatives at railway stations, airports, other public places, as well as by private business investment into retail and production safety and security.

Regarding regional segments, 55% of the market is concentrated in Moscow and St. Petersburg, 25% in the Urals Federal District, 7% in the Siberian Federal District, and 6% in the Northwest Federal District. The rest of the market is divided among the Volga, Far East and Southern Regions. This order may change over the next two years as the 2014 Olympic Games will require substantial investment in safety and security infrastructure in the Sochi region. However, key management decisions on that project are made in Moscow.

The safety and security equipment market is divided into four main product segments:

- CCTV and Video Surveillance
- Access Systems
- Fire Safety Systems
- Perimeter Security and Control Systems

### 2011 Safety and Security Equipment Market (Sales/Share)



In 2011, the Russian CCTV and access systems segments totaled just over \$1.4 billion, or 60% of the equipment market. It is considered the most developed and competitive segment. The size of the security and fire alarm segment was approximately \$476 million (21.6% of the equipment market), historically increasing 12% to 15% annually. This segment grew substantially in 2010 because of the heavy fires that occurred in the summer throughout the country and kept on growing with new construction projects being launched all over country. Moreover the government developed a new fire security program, with the Ministry of Emergency Situations in charge of the key points of the development agenda.

A new sub segment acquired an important role in the CCTV market segment. These are personal identification and face recognitions systems. Along with Olympic projects and a transportation infrastructure upgrade the government allocates almost \$ 312 million through 2015 to implement this technology at metro stations, railways, public areas and city halls.

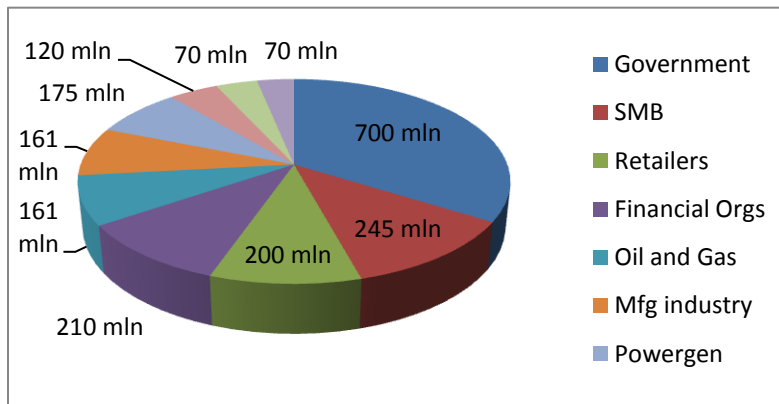
Depending on the segment, the share of imported products ranges from 50% to 95%. Experts estimate that up to 80% of access control, about 50% of intruder and fire alarms, and more than 95% of CCTV systems are imported. Even locally manufactured equipment contains 60% to 95% imported components. Hi-tech solutions come from China, Taiwan, and Korea and are popular in Russian regions outside of Moscow and St. Petersburg. Premium systems are imported from the United States, Europe (Great Britain, Germany, France, Italy, and Poland), Japan, and Israel, though the majority of the components even in these systems originate from China.

In 2011, the following companies had the largest sales in the Russian market: Axis Communications, Bosch Security Systems, CBC Group, ComNet Europe, Fujinon, Hikvision, Microdigital Inc, Milestone Systems, Mobotix, Panasonic, Qnap, Samsung, Siemens and Sony.

The government is the main end-user of products and services in this industry, with over \$700 million in 2011. Government agencies and state corporations have almost doubled their expenses. Its share is constantly increasing as the government projects new construction for upcoming events such as Universiade 2013 in Kazan, Olympic Games, APEC Forum, and Soccer World Cup 2018. There is still unrest in the Northern Caucasus region and Chechen and Ingush terrorists still represent a threat to the

stability in the Central region of Russia as well as southern region such as Dagestan. After a series of terrorist attacks in the Moscow metro and at Domodedovo airport, the government voted for increasing safety and security measures implementing metal detecting equipment at every area where a potential attack may occur along with face/voice recognition systems that enable detecting potential threats at public places.

### Major Consumers of Safety and Security Products and Services in 2011



While Russian government procurement is substantial, private entities, mainly in real estate, banking, retail, and oil and gas, are also important buyers and end users of a wide variety of security equipment. Currently, there are over 300 distribution companies working in the Russian security market. Sixty-five% of these companies are located in the Moscow and St. Petersburg regions.

Finding a local partner knowledgeable in the industry and experienced in procurement tenders would be the shortest path to successfully entering the Russian market. All Government purchases are made through <http://www.zakupki.gov.ru>, a large web-based resource consolidating all procurement enquiries from state organizations and agencies. It operates only in Russian. It is essential to cooperate with a Russian company or to open a representative office inside the country to handle operations related to government tenders. Moreover, companies working in this business need steady and long-term relations with law enforcement and emergency agencies, which are the main consumers of the safety and security products.

### Sub-Sector Best Prospects

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A newly set trend in CCTV and Access systems markets is the merging process of these two segments involving cloud-computing applications. CCTV becomes more comprehensive bringing in higher resolution for the transmitted image. Higher data traffic creates more vigorous technical requirements for the hardware.

Another trend is fire security equipment. The summer 2010 wild fires in Russia that injured hundreds of people forced the government to implement major changes in the Fire Service, which is a part of the Emergency Ministry. Much attention is being paid at the moment to fire security in public places and forests.

The Russian Government continues to show concern for possible terrorist attacks. Companies selling metal detectors expect an increase in sales, as luggage and

individual inspection may become mandatory at rail stations and other transportation related areas.

One of the most important opportunities is the 2014 Olympic Games in Sochi. The total budget for the Games is about \$13 billion. The cost of safety and security equipment is estimated at 17% of the construction cost, thus creating a \$2 billion market for safety and security products. Additionally, U.S. companies may be presented with opportunities related to the 2018 FIFA World Cup.

The best prospects for sales of U.S. manufactured hardware in 2010-2011 include:

- IP-based solutions in various equipment segments (surveillance, detection, day/night surveillance and infrared systems) especially high end systems
- Access control systems
- Fire/intruder alarm systems, especially for public places
- Integrated control systems
- Biometric equipment, identifiers and readers
- Antiterrorist equipment, especially bomb-detection equipment
- Anti-theft systems, radar detection, recording equipment (wireless)
- Fire safety equipment
- Cloud computing used for CCTV/access systems
- Rescue equipment

Experts consider that growth for these groups of products can sustain 10-15% in the next three years unless any critical changes in the financial or political situation take place. Companies should be aware of possible U.S. export control regulations related to the export of these types of technologies and equipment.

## Opportunities

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The strength of the safety and security systems market is in constant innovation and price competitiveness. New concepts and products may create market entry opportunities.

Participation in industry events is very important in this Russian market and it also facilitates successful market entry. There are several key events in the Russian safety and security industry. Key companies in the sector participate in the Moscow International Exhibition for Protection, Security & Fire Safety (MIPS), a show that has received government support as well as Interpolitex.

Interpolitex is a specialized trade show dedicated only to emergency and law enforcement; it is supported by the Ministry of the Interior. Companies exhibiting at this trade fair work closely with this Ministry and its law enforcement agencies.

## Web Resources

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### Organizations

Russian Security Industry Association: [http://www.rasi.ru/index\\_eng.php](http://www.rasi.ru/index_eng.php)

VNIIPO; All-Russian Scientific-Research Institute for Fire Prevention (Fire security equipment certification body): <http://www.vniipo.ru>

**Trade Events**

SST (International Forum & Exhibition "Security and Safety Technologies")

February 14-17, 2012

*Moscow*

<http://www.tbforum.ru/en>

MIPS (Moscow International Exhibition for Protection, Security & Fire Safety)

April 25-27, 2012

*Moscow*

<http://mips-expo.com>

Interpolitex (International Exhibition of Police and Defense Technologies)

October 23-26, 2012

*Moscow*

<http://www.interpolitex.ru/en>

**Publications**

Safety Systems Magazine published by Groteck Company: <http://www.groteck.net>

Sec.ru: <http://www.sec.ru>

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## Travel and Tourism Services

### Overview

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Unit: USD thousands

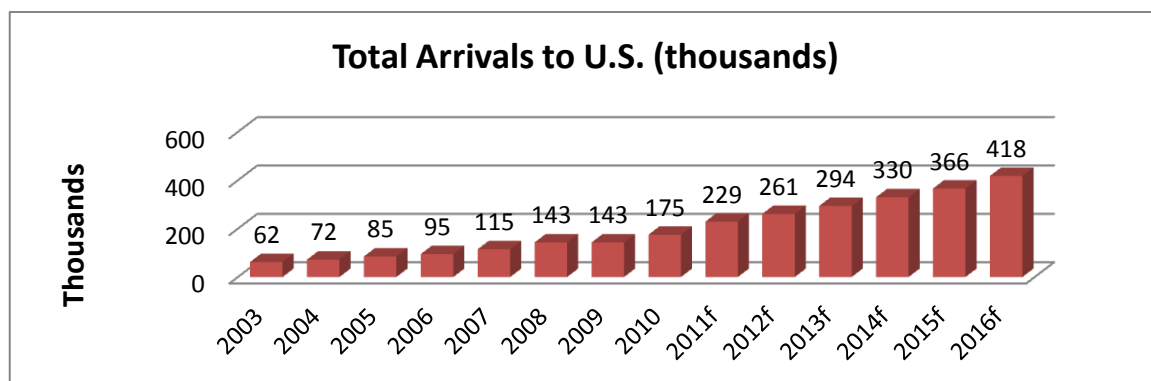
	2010	2011 (estimate)	2012 (forecast)	2013 (forecast)
Russians Traveling Abroad	22, 111,000	24,218,000	25,784,000	30,259,000
Russians Traveling to U.S.	175,000	229,000	261,000	294,000

Source: Q1 Russian Tourism Report, BMI 2012; Office of Travel & Tourism Industries, U.S. Dept of Commerce

With a population of over 140 million, Russia is the ninth largest outbound market in the world. Russians made over 24 million international trips in 2011. As the growing Russian middle class discovers new routes that cater to their tastes and budget, U.S. destinations are becoming more popular among Russian tourists.

Russia is the third fastest growing inbound U.S. market with 31% growth behind only Saudi Arabia and China (minimum 100,000 arrivals). Growth of Russian arrivals to the U.S. has been consistently strong even during the economic crisis (see chart below). The figures below provide an overview of the current market and the strong potential for Russian inbound visitation to the U.S.

New direct passenger flights to the United States, simplified U.S. visa procedures and the continued strength of the Euro and British Pound against the U.S. dollar have helped make travel to the United States more attractive and affordable for Russian travelers. While the financial crisis of 2009 interrupted the rapid growth of the Russian T&T market, 2010 and 2011 showed continuation of the positive dynamics, and experts' longer-term forecasts are extremely optimistic.



Source: Office of Travel & Tourism Industries, U.S. Dept of Commerce

According to the UN World Tourism Organization, Russia was the second fastest growing market in terms of tourism expenditure with 28% growth in 2010 (a faster rate of growth than China). Visa reported that Russian travelers spent \$5.8 billion on Visa cards in 2010 – 36% growth. In 2010, Russians spent \$438 million when they visited the U.S., a 42% increase on 2009. The number one segment for spending among Russians

on their Visa cards is in Department Stores, outpacing what they spend on other categories, including airline tickets.

### **Sub-Sector Best Prospects**

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Based on the results of the survey of Russian tour operators conducted by CS Moscow, the most promising destinations in the United States include:

- Cities: New York City, Miami, Las Vegas
- National Parks
- Ski / Winter Resorts
- Leisure / Entertainment Complexes

New York City has been and will likely remain the most popular city destination for Russian tourists in the near future. Russians will often combine their business travel to NYC with a pleasure trip. Their family, historical and cultural ties to NYC put it on the top of the list for brand awareness, followed by Miami and other locations in Florida famous for their comfort and opportunities for various forms of leisure. As more Russian tourists reach the U.S. West Coast, California resorts and attractions are becoming increasingly popular in this respect as well. Las Vegas, historically considered by many Russians the gambling and entertainment capital of the world, has gained in popularity after July 1, 2009, when gambling was officially banned in Russia. Interest in national parks is growing as Russian tourists hear more about what they have to offer. Ski and winter sports resorts have become more popular in recent years as an alternative to European resorts as they provide a unique travel experience in terms of variety, beauty and quality of service. Because of the current U.S. dollar/Euro exchange rate, these resorts have become more economical than European destinations.

### **Opportunities**

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Increased prices for domestic travel destinations and the development of outbound travel services triggered Russians' growing interest in travel to destinations outside Russia. Turkey, Egypt and China have been the most popular international destinations for Russian tourists for the past several years. These countries, along with Finland, Italy, Spain, Greece, Bulgaria and Thailand still constitute the core of mass tourism destinations for Russian travelers. However, recent outbound traffic statistics indicate that, in addition to traditional warm and seaside destinations, more Russians are choosing countries where they may supplement time on the beach with other activities, such as cultural and sporting events, shopping and recreation. Moreover, Russians who have traveled to Asia and Europe in the past are willing to explore destinations other than those they have already visited. While the activity may be similar, the different destination is appealing. For example, skiers who have visited the Alps for their proximity look to Colorado, Utah and Vermont for their next trip.

The popularity of the United States as a tourist destination has grown steadily over the last decade with especially strong growth in 2010 and 2011. According to international arrival data from the Office of Travel and Tourism at the U.S. Department of Commerce, the number of Russians traveling to the United States totaled 175,000 in 2010, 22.4% growth over the prior year. That number increased to 229,000 in 2011 (31% growth) and is forecast to reach 261,000 in 2012.



An important factor accounting for the steady growth in the number of Russian travelers to the United States is the significant improvement in the visa application process that has taken place in recent years. The U.S. Embassy has made great progress in streamlining the process in the face of a rapidly growing number of applications including: providing visa information available online in Russian; allowing application fees and supporting documents to be sent to the Embassy via a courier service with offices across Russia; and accepting payments at Russian post offices and online. Russians now have the opportunity to secure a two-year, multiple entry visa and legislation is before the Russian parliament to allow three-year multiple entry visas to be issued. For those wishing to renew a visa, the requirement to appear for an interview is waived if they apply within six months following their previous visa expiration date which has allowed 20% of Russian visa applicants to obtain their visa without an in-person interview. The availability of visa information online has made it possible to counter the market's impression that U.S. visas are expensive, difficult to obtain and take a long time to process. Russian tour operators are also educating their travelers regarding these improvements. Visit USA Russia, a young yet very active organization registered in Moscow in April 2010, is contributing to this effort by organizing meetings of Russian travel industry professionals with U.S. Consular officers working in the U.S. Embassy in Moscow and U.S. Consulates throughout the country.

Another significant improvement is the fact that more airlines, both U.S. and international, have launched non-stop service connecting Moscow with U.S. destinations. Delta Airlines, United Airlines, Aeroflot Russian Airlines, Transaero and Singapore Airlines all offer direct flights to U.S. cities. Aeroflot flies to New York, Washington DC and Los Angeles; Delta flies to New York; United to Washington, DC; Transaero to New York and Miami, and Singapore Airlines flies to Houston. Many more international airlines transport Russian travelers to the U.S. via hubs such as Frankfurt, Copenhagen, Amsterdam, Madrid, London, and others. As the market becomes more educated about U.S. destinations, visa processing, flight availability and purchase value, the Russian market is looking increasingly to the United States for tourist destinations.

A key partner in the market is Visit USA Russia, comprised of the leading Russian tour operators and U.S. travel product suppliers. The current roster includes 59 members dedicated to promoting the USA as a travel destination. Visit USA is very active in Russia through the organization of promotional road-shows throughout Russia, USA pavilions at leading travel fairs, press conferences, FAM trips, membership meetings and more.

## **Web Resources**

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### **Trade Events**

International Travel Fair Intourmarket

March 17-20, 2012

Moscow

<http://www.itmexpo.ru/en/>

Moscow International MICE Forum

March 19, 2012

Moscow

<http://www.miceforum.ru>



Moscow International Travel & Tourism (MITT)

March 21-24, 2012

*Moscow*

<http://www.mitt.ru/en>

Visit USA will arrange a Pavilion at MITT 2012

Visit USA Roadshow 2012

Dates TBD

*Major Russian Cities*

<http://www.visit-usa.ru/en>

INWETEX – CIS Travel Market 2011

October 4-6, 2012

*St. Petersburg*

<http://www.restec.ru/exhibitions/featured/travelexpo/inwetex.en.html>

Moscow Ski Salon

November 2-4, 2012

*Moscow*

<http://eng.skiexpo.ru/>

Visit USA Russia will organize a joint US pavilion at Moscow Ski Salon 2012

## **References & Key Contacts**

### **Visit USA Russia**

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**International Trade Administration, Office of Travel & Tourism Industries**

U.S. Department of Commerce  
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Russia's agricultural, fish and forestry imports rebounded in 2011 and for the January-October 2011 period<sup>5</sup> reached approximately \$32 billion. This level signals a remarkable recovery, nearly 26% higher than in 2010 and surpassing the record of 2008. The situation for U.S. exports improved as well. In 2011, U.S. agricultural, fish, and forestry exports to Russia increased 10% year-on-year to \$1.3 billion, spurred by recovering pork exports, as well as expanded exports of beef, livestock genetics, soybeans, prepared foodstuffs, hatching eggs, nuts, and spirits.

Year-on-year and average annual growth in Russian agricultural imports can be seen in the following table:

	2007	2008	2009	2010	2011*
Agricultural Imports (billion dollars <sup>1</sup> )	24.9	31.9	26.6	31.7	32.0
Growth Year-on-Year (percent)	26.8	28.16	-16.7	19.1	26

UDG: WTO 2010; Source: Global Trade Atlas (excludes Belarus for entire time series and Kazakhstan after July 2010)

\* January-October 2011 data

The average applied external agricultural tariff of the Russia-Kazakhstan-Belarus Customs Union (CU) is approximately 13.2% ad valorem equivalent. Tariff rate quotas (TRQ) for beef, poultry, and pork remain under the control of the Customs Union, and compared to 2011 market access, in 2012, volumes are lowered for pork and poultry. All Russian TRQ volumes are subject to change in mid-2012, following Russia's WTO accession. Significant changes for imports are resulting from the evolving harmonization of sanitary, veterinary, and phytosanitary regulations within the Customs Union. Many exporters are lost in the large volumes of new legislation and continue to operate under the previous status quo. With the new rules, the opportunity for corruption remains high, and border officials are inconsistent in their application of import requirements.

Russia maintains a number of barriers with respect to imports, including tariffs and tariff-rate quotas; charges and fees; and licensing, registration and certification regimes. SPS rules continue to be regularly and commonly abused to create trade barriers. The two institutions most commonly responsible for these abuses are the Ministry of Agriculture's Federal Service for Veterinary and Phytosanitary Surveillance (VPSS) and the Ministry of Health's Federal Service for Supervision of Consumer Rights Protection and Human Welfare (Rospotrebnadzor).

Positive growth in Russian grocery retailers helped to ring in good retail value sales in 2011. Russian retail sales (grocery and non-grocery) in January-November 2011 totaled \$580 billion, which is about 20% growth compared to the corresponding period of 2010. Food retailers contributed 47.8% to total retail market turnover last year with \$278 billion in sales. This is roughly on par with 2010 (48.6% of total retail sales). The leading grocers reported actively developing low-end supermarkets. Internet retailing growth rates remain high, exceeding the growth rates of offline retailing.

<sup>5</sup> At the time of report drafting, the most recently available data for Russia was through November 2011.

Because retailers demand consistent quality and adherence to contract specifications and penalize suppliers for failure to meet requirements, foreign suppliers continue to be competitive in the Russian market as they are more accustomed than Russian agricultural producers to meeting such strict specifications.

Given the limited number of multinational players on the domestic market, Russian food retail continues to be led by large domestic retailers with annual turnover exceeding \$2 billion. Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent and Dixie chains are still among the top Russian retail players. That said, in addition to domestic companies, the French Auchan Group, German Metro AG and others have earned significant market shares during last decade. Nationwide, retail chains occupy about 18% of the food retail market, but with higher concentrations in major urban centers (about 21% in Moscow and 48.3% in St. Petersburg, according to Rosstat).

Open-air markets and older Soviet-style stores, including wet markets, are declining in popularity and losing market share to modern retail formats such as hypermarkets, supermarkets, and discounters. Street market sales decreased by 2.2% in January-November 2011, amounting to about 12% of retail sales in Russia, according to Rosstat. Traditional retail has the weakest position in Moscow and St. Petersburg.

The economic crisis stimulated mergers and acquisitions in the retail industry throughout the country. Nevertheless, the Russian retail market is still highly fragmented with the 11 largest retailers (by revenue) controlling only 18% of the market, versus 80% for the 10 largest retailers in the United States.<sup>6</sup> The share of food sales made by retail chains was 20.5% (in November 2010 that figure was 19.5%).

Russia's food processing sector showed some growth in 2011 and continued growth is anticipated for 2012 supported by rising disposable income, increasing real wages, declining unemployment and growing food expenditure. Food processing sectors that are showing strength include: meat and offal, sausages, meat products (including pork, poultry, sausages and semi-finished meat), dry milk and cream, butter, canned milk, pasta, sugar, confectionery, frozen fruits and vegetables, and mineral water. Food ingredients are imported, mainly from Denmark, Belgium, France, Germany, Austria, Great Britain, and the United States. Many Russian manufacturers are investing in modernization and expansion in order to strengthen their position in the market. The Russian food industry continues its dependence on imports and, thus, opportunities to supply the market with U.S. products are plentiful. Russian's anticipated accession into the WTO will ease import restrictions for some products, such as dairy products and certain meats, from the United States.

The food processing industry is made up of foreign and domestic manufacturers with the latter dominating number wise. The biggest Russian food manufacturers are: Baltika Brewery Company, Unimilk, "United Confectionaries", "Cherkizovo", "Efko" Groups of Companies. Among the most well-known foreign food manufacturers in Russia are Kraft Foods and PepsiCo which invested heavily in WimmBill Dann in 2010-2011. These foreign investors are strengthening their positions with investments and marketing

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<sup>6</sup> For more on the food retail sector in Russia please see ATO Moscow's Annual Retail Report 2011 at [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods\\_Moscow%20ATO\\_Russian%20Federation\\_9-2-2011.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Moscow%20ATO_Russian%20Federation_9-2-2011.pdf)

activities that overshadow domestic companies. The leaders in this market are focused on consolidation and expansion into regions outside of Moscow and St. Petersburg.

Russia continues to pursue the targets set out in the official Food Security Doctrine which sets the minimum self-sufficiency targets: 85% meat, 90% milk, 80% sugar and vegetable oil, and 95% in potato and grains. In 2011, we saw continued restrictions on dairy, pork and poultry as both domestic programs and foreign trade policy favored domestic production in order to help secure some of these targets. For 2012, some of these problems should be alleviated with WTO Accession.

### **Sub-Sector Best Prospects**

#### **Beef, Chilled/Frozen**

Russia is the world's third largest import market for meat and poultry products at \$8 billion, including trade with Belarus. Beef Chilled/Frozen has potential for expanded sales to the processing sector, retail sector and the hotel/restaurant/institution sector. Upon WTO accession, Russia will lock in the current applied TRQ quantities of frozen beef available to the United States (60,000 metric tons) and increase access for chilled beef from 1,000 metric tons to 11,000 metric tons, available for non-EU countries. The in-quota rate will be bound at the current level of 15%, and the out-of-quota binding will increase from the current applied level of 50% to 55%. If Russia chooses to move to a tariff-only regime, they will fall to 27.5%. Russia will respect the U.S. definition of high-quality beef, all of which will be permitted to enter at 15% and not count against TRQ quantities. Currently, only beef valued at no less than 8 Euro per kg has such exempt access. This access will not be impacted by a change to a tariff-only regime. Beef offal continues to be quota-exempt, yet U.S. trade is weak in most types of beef offal except liver.

#### **Animal Genetics**

The Russian government has adopted several development plans to stimulate development of the dairy, poultry, pork, and beef sectors. As the access for meat and poultry continues to be limited through quotas and/or SPS measures, the demand and opportunity for higher quality animal genetics will grow.

Russian government subsidies and current development projects will facilitate the import of 50-100,000 head of cattle from around the world, and the United States is well-positioned to be a top supplier into the future, especially for producers seeking the best genetics available. The markets also continue to grow for semen and embryos. Demand exists for both dairy cattle, specifically registered Holsteins, as well as beef cattle, especially Angus.

Hatching eggs and chicks are important for the expanding Russian poultry and egg sector, and as a result, most import tariffs have been applied duty-free.

Swine genetics remain an area of opportunity; however, transit restrictions through the European Union require creative shipping solutions from the U.S. exporter.

#### **Edible Tree Nuts**

Russia's commercial nut production is limited to pine nuts and therefore Russia is entirely dependent on imports for consumption of other tree nuts. Since 2005, nut imports in Russia have increased from 52,000 tons to 75,500 tons, with this growth

driven by rising incomes throughout most of the period and heightened consumer awareness of the health benefits of eating nuts. In 2010, tree nut imports grew by 8% in volume and reached 75,549 MT. In value terms the tree nut market in Russia in 2010 is estimated at \$334.5 million, 14% higher than in 2009. In 2011 the trend continued and in January-September nut imports were 17% higher compared to last year.

In 2010, the United States' share in the Russian tree nuts market was 20%. The U.S. supplied 91% of almonds and 12% of pistachios to Russia in 2010. U.S. exports to Russia in 2011 jumped by 46% to a new record of \$90 million.

The majority of imported nuts are packaged in Russia into consumer-ready packs or used in the confectionary, baking and dairy industries.

### **Fish and Seafood**

Growing demand in Russia helped U.S. fish and seafood exports to Russia surge 45% in value in FY 2011 to nearly \$68 million. With demand for fish expected to continue to grow in Russia, this market looks promising for U.S. suppliers for the foreseeable future. The U.S. still currently supplies only about 2% of total fish and seafood products, and as a result there is massive room for growth.

Russian importers report that the variety of fish and seafood products and quality of these products are increasingly important to Russian consumers. To satisfy demand, local retail outlets and restaurants are offering a wider selection of both traditional products as well as exotic items. In addition to the customary herring, mackerel, and salmon, consumers can now find squid, prawns, mussels, live scallops, snails, and oysters as well as other products. Because of this growing market, U.S. fish and seafood producers will continue to be able to find new market opportunities in Russia as consumer income rises, demand continues to boom, and consumer habits continue to change.

Russian trade sources believe that low European fish stocks, strong world demand for seafood products, and a reduction in annual catch quotas may drive up the prices of seafood from the European Union. This would allow U.S. fish and seafood products to be even more competitive in price and enjoy higher demand in the local market.

Fish consumption patterns will continue to depend heavily on household income, prices, and preferences within the population. Russian consumers tend to prefer the following: herring, Pollock, mackerel, salmon and trout. Frozen fish is also traditionally popular in Russia.

### **Fresh Fruit (Apples, Pears, Grapes, Citrus)**

Russia remains the third largest importer of fruit in the world in value terms and the number one market for apples and pears. In 2010, consumption of fruit in Russia increased to 71 kg per capita, up 10% compared with 2009 (based on the Russian Federation Statistic Committee data) but still significantly lower than consumption levels in European countries, the United States, Japan, and China. The Russian fruit market is far from being saturated and will continue to grow. Russians mainly buy apples, bananas, pears, and citrus. U.S. exports of fruit reached a record in FY11, but the U.S. still has less than 1% market share, and extensive opportunities exist for expansion.

The largest overall fruit suppliers to Russia are Ecuador (bananas), Poland (apples), Turkey (citrus, grapes, and stone fruits), China (apples, citrus, stone fruits), Argentina (apples, pears, and citrus), and Chile (grapes). Russia is the priority market for former Soviet republic countries, European, Turkish and North African producers due to the close proximity to Russia and long term relations with Russian buyers. In FY 2011 U.S. apple exports to Russia rebounded to a near record of \$16 million. American pears have seen remarkable growth in recent years, rising from just over \$1 million worth in FY 2004 to over \$11 million worth in FY 2011. Despite this growth, U.S. market share remains low in Russia at 2% of the total pear market.

Russia remains one of the top importers of grapes in the world. Russia does not produce grapes commercially and so relies entirely on imports for consumption. In FY 2010, Russian imports were worth \$566 million, up by 5% in volume and 21% in value from the previous year. Turkey is the largest exporter to Russia, followed by Uzbekistan and then Chile. U.S. grape sales have also grown steadily, and in FY 2011 reached a new record of \$7.8 million, up 70% from the previous year.

Russia doesn't grow citrus and therefore is entirely dependent on imports of oranges, grapefruits, mandarins, lemons, and limes. In 2010, citrus imports showed 16% growth and reached a new record and the trend has continued in 2011. The U.S. share of American citrus is under 1%. Citrus from Turkey, Morocco, Egypt, and South America dominate in Western Russian markets. However, U.S. oranges, lemons, and mandarins are imported to the Russian Far East and have developed a niche market there that is relatively stable.

Apples, which are currently the largest U.S. fruit export to Russia, will enjoy greater market access and reduced tariffs as a result of Russia's WTO Accession immediately after accession. For many of the other fruit products, market access gains will occur in the medium-term.

### **Prunes and other Dried Fruit**

Russia is the biggest importer of prunes in the world and import demand has doubled during the past 5 years. Prunes are one of the most popular dried fruits in Russia, often used in home cooking. The food manufacturing and snack packing industries are as well big consumers of plums and the demand is expected to grow following the trend for healthy eating in Russia.

The United States is among the three largest suppliers of prunes to Russia, along with Chile and Argentina. In FY 2011, the value of U.S. prune exports reached a new record of \$12 million, up 10% from the previous year.

### **Wine and Spirits**

Russia is one of the 10 largest world wine markets (which combined account for around 70% of global sales in both volume and value terms). With per capita wine consumption estimated at just 7 liters in 2010, Russia is one of the largest growth markets for wine, and the most developed wine market of the BRICs. Italy, France and Spain, the three major wine producers globally, are also the major exporters of wine to Russia. U.S. wine sales have risen dramatically in recent years, and reached over \$8 million in fiscal year 2011. Despite this, U.S. wine currently only has about 1% market share, and because of this there is large room for growth. Russian wine imports reached \$855.7 million in FY2011, up 21% from 2010 but still below the \$914.1 million imported in 2008.

Among the top ten spirits markets in volume terms, Russia has demonstrated growth of bourbon and rum from Puerto Rico since 2009. The United States (including Puerto Rico which makes up the lion's share) is the sixth largest supplier of spirits to Russia and the market is growing, up 34% by volume in 2010. In 2010, U.S. exports of spirits to Russia were worth \$48 million, and so far in 2011 are significantly above this level and expected to reach a new record. Russian imports of hard liquor were \$1.055 billion in FY2011, up 25% from FY2010.

All alcoholic products will see tariffs fall upon Russia's WTO accession, with implementation typically between 2015 and 2016.

## **Web Resources**

### **Organizations**

U.S. exporters should consult reports from USDA's office in Moscow, which are posted on the website of the Foreign Agricultural Service under the "Attaché Reports" heading or go to <http://gain.fas.usda.gov/Pages/Default.aspx>. Of particular interest should be the annual *Exporter Guide* as well as periodic reporting on changes in tariffs, market opportunities, and Russian commodity trends. Exporters should consider exhibiting their products in the U.S. pavilions at the World Food trade show (September 2012) or the Golden Autumn trade show (October 2012). For further information on these shows, please contact the Moscow Agricultural Trade Office at [atomoscow@fas.usda.gov](mailto:atomoscow@fas.usda.gov).

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Foreign Agricultural Service, USDA: <http://www.fas.usda.gov>

Agricultural Attaché Reports: <http://www.fas.usda.gov/scripts/AttacheRep/default.asp>

USDA office at the American Embassy, Moscow, Russia: <http://www.usda.ru/rus/>

Ministry of Agriculture: <http://www.mcx.ru>

Ministry of Economic Development:  
<http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home>

## **Trade Events**



**For Food and Beverage Products for the Wholesale and Retail Sectors:**

Prodexpo

February 13-17, 2012

*Moscow, Expocentre*

<http://prod-expo.ru/en/>

World Food Moscow

September 17-20, 2012

*Moscow, Expocentre*

[www.world-food.ru/eng](http://www.world-food.ru/eng)

**For Food and Beverage Products specifically targeting the Hotel and Restaurant Sector:**

PIR Hospitality Industry

September 25-28, 2012

*Moscow, Crocus Expo Center*

<http://www.pir.ru/>

**For Food and Beverage Ingredients:**

Ingredients Russia

*March 13-16, 2012 Moscow, All-Russian Exhibition Centre (VVC)*

<http://www.ingred.ru/Default.aspx?lang=en-GB>

**For Products targeting the Russian Farming Sector such as animal genetics and feeds, agricultural equipment, machinery, technology, and veterinary medicines:**

Agro Farm

February 7-9, 2012

*Moscow, All-Russian Exhibition Center (VVC)*

<http://www.agrofarm.org/81.html>

Golden Autumn

October 6-16, 2012

*Moscow, All-Russian Exhibition Center (VVC)*

<http://www.goldenautumn.ru/en/>

VIV Russia

May 28-30, 2013

*Moscow, Crocus Exhibition Center*

<http://www.vivrussia.nl/en/Bezoeker.aspx>

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## Chapter 5: Trade Regulations, Customs and Standards

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### Import Tariffs

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Russia continues to maintain a number of barriers with respect to imports, including tariffs and tariff-rate quotas, discriminatory and prohibitive charges and fees, and discriminatory licensing, registration and certification regimes. This situation has become more complicated due to the entry into force on January 1, 2010, of the Customs Union (CU) among Russia, Belarus and Kazakhstan. All issues such as tariffs, tariff rate quotas and licensing and certification are being harmonized, although implementation so far has been uneven. For more detailed information concerning tariffs, please refer to the “Customs Regulations and Contact Information” section below. The following is a selection of tariff ranges for popular U.S. goods entering Russia.

<u>Commodity</u>	<u>Rate (%)</u>
HS 02: Meat and edible meat products	
(within quota, but not less than .20-.25 Euro/kilo)	15
(beyond quota, but not less than 1-1.5 Euro/kilo)	50-75
HS 0207 (within quota, but not less than .2 Euro/kilo)	25
(beyond quota, but not less than .7 Euro/kilo)	80
HS 24: Tobacco and manufactured tobacco/Unmanufactured tobacco	5-20
- Cigars and Cigarettes but not less than 3 Euro/1000 pcs	30
HS 28: Inorganic Chemicals	0-20
HS 38: Miscellaneous chemical products	0-15
HS 39: Plastics and Articles thereof	0-10
- Finished products	0-20
HS 73: Articles of iron and steel	0-20
HS 84: Nuclear reactors, boilers, machinery	0-20
HS 85: Electric Machinery	0-20
HS 87: Vehicles except railway and tramway	0-35
HS: 8708 Auto parts	0-10
HS 90: Optic, Photo, Medical and Surgical Instruments and devices	0-20

Current information on the harmonized tariffs of the CU can be found in Russian at:  
<http://www.tsouz.ru/>

As part of the negotiations for the CU, Russia changed many of its tariffs and tariff lines. The new CU tariff schedule changed rates for over 100 categories of commodities, lowering the tariff ceiling for some categories, but raising them or making permanent previous temporary tariff increases for many others. Notable changes included lowering of import tariffs for pearls, diamonds and other precious stones from 20% to 10-15% and keeping the high "temporary" tariffs on agricultural equipment and off-highway trucks. Certain commodities continue to be regulated through seasonal duties and quotas.

In December 2011, Russia was invited to join the WTO after 18 years of negotiations. Formal accession is expected to take place in 2012, at which point Russia will be expected to honor the commitments it made with regard to the reduction of tariffs for the imports of good and to the terms for access to Russia's market for services.

In addition to tariffs, there are two other charges applied to imports: the ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal 18% VAT rate effective January 1, 2004 (with the exception of certain foodstuffs, pharmaceuticals and medical supplies, goods for children, and printed media for which VAT is 10%) is applied to the import price, tariff, and excise tax combined. There are some exemptions from VAT. For example, resolution No.19 of January 17, 2001, provides a list of vitally essential medical equipment to which no VAT is applied. The excise tax applies to a number of luxury goods, motor fuel, lubricants and other petroleum products, alcohol and tobacco products, and varies from 20% to 570%.

From December 2008 through February 2009, the Russian government announced a series of significant duty increases on cars, harvesters, certain steel products (including pipes, tube and rebar), and certain agricultural products (including butter, milk and soy meal). These duty increases, many of which the government renewed after their initial nine-month period, have now been included in the harmonized CU tariff schedule and will continue to be an obstacle to U.S. exports to Russia.

In 2011, the CU increased import tariffs on 124 types of products, roughly 40% of which apply to U.S. producers. Products subject to tariff increases include continuous-action elevators and conveyors specially designed for underground use, liquid-filled radiators, some drilling machines, disc harrows, ordinary seeding machines and balers, sprayers and powder distributors designed to be mounted on or drawn by tractors, beet-topping machines and beet harvesters and other harvesting machinery, and other products..

High import duties on finished vehicles (as much as 30% for new cars and at a prohibitive level for used cars older than five years) have forced companies to set up local assembly plants to get past the tariffs. Russia also maintains an automotive investment regime. Under new contracts signed in 2011, automobile producers in Russia that manufacture at least 350,000 vehicles per year and ensure that 60% of the vehicles' value is sourced locally may import automobile parts duty free. As part of its WTO accession commitments, Russia agreed to end the WTO-inconsistent elements of the program (the domestic content provisions applying to goods) by July 1, 2018 and reduce the average bound tariff rate on imported vehicles to 12.3% by 2019.

In 2009, Russia increased import tariffs in various key areas to protect domestic industries, often citing the global economic crisis as justification. With the adoption of the CU CET on January 1, 2010, Russia made permanent many of those “temporary” duties (e.g., tariffs on automobiles, trucks, combine harvesters, soy meal, selected dairy products, and some construction equipment). While it initially appeared that the Russian government imposed these measures mainly to protect domestic producers from competing imports during the global economic crisis, their new permanence in the CU tariff schedule suggests that Russia may aim to promote local industry over foreign producers.

In addition to duty increases, trade investigations conducted by the Russian Ministry of Industry and Trade (MIT) have resulted in additional duties on such products as certain steel products, large diameter pipes, mechanical fasteners, and cutlery and steel pipes. However, all of Russia’s current safeguard and antidumping measures are being reviewed by the MIT in view of the CU Agreement of November 19, 2010, on the Application of Safeguard, Antidumping and Countervailing Measures during a Transition Period.

## **Trade Barriers**

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In general, U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. A complaint frequently voiced by U.S. companies is Russia’s complex system of standardization. As explained in detail in the “Standards” section below, Russia’s regime remains extremely complex due to its lack of clarity and transparency, and overall redundancy. While the system has improved somewhat, U.S. companies are encouraged to obtain appropriate legal advice or assistance from experienced distributors or consultants, as well as the U.S. Commercial Service.

Discrimination against foreign providers of non-financial services is, in most cases, not the result of federal law, but stems from abuse of power, sub-national regulations and practices that may violate Russian law. For example, a few foreign service providers allege that they are forced to pay a range of fees to obtain licenses from local authorities that domestic companies bypass via bribes.

The 1996 federal law "On Banks and Banking Activity" permits foreign banks to establish subsidiaries in Russia. However, Russia does not allow foreign banks to establish branches in Russia. The 1990 federal law on banking activities specifically states that any quota or limitation on the size of foreign charter capital in the banking sector would require a new law to be put forward by the government of Russia and agreed to by the Central Bank of Russia. Among other WTO accession commitments, Russia has pledged to allow foreign ownership to account for as much as 70% of the country’s total banking sector equity. Currently, the share of foreign capital is just 28%.

The Central Bank requires newly established banks, whether domestic or foreign subsidiaries, to have a minimum of 300 million rubles (\$10 million) in capital, and 900 million rubles (\$30 million) is required to obtain a general license, which allows a bank to conduct operations in foreign currency and attract deposits. Banks established before 2007 are required to have a minimum capital of 90 million rubles (\$3 million), while banks established after January 1, 2007 must have at least 180 million rubles. At least 75% of the bank's employees and 50% of the bank's management board must be of

Russian nationality if the chairman is not a Russian citizen. Heads of foreign banks' Russian offices are required to be proficient in the Russian language.

In the insurance sector, Russia allows foreign firms to establish subsidiaries but not branches. Insurance firms are individually subject to a cap of 49% foreign capital. Additionally, there is a 25% quota on the aggregate share of foreign capital in the insurance sector. The sector temporarily reached this maximum early in 2011, but near the end of 2011 foreign capital was under 25%.

Russia's WTO membership will provide increased market access to foreign insurance companies, including 100% foreign ownership of non-life insurance companies upon accession. Limits on the number of life insurance licenses granted to foreign insurance firms, as well as foreign participation in a small number of mandatory insurance lines will be phased out five years from the date of accession. Russia will allow foreign insurance companies to open direct branches for life and non-life insurance, reinsurance, and services auxiliary to insurance nine years from the date of its accession.

In 2010 the law "On Private Detective and Security Activities" entered into force. The law states that no security company can be owned by a non-Russian entity, including a Russian subsidiary owned by a foreign entity, and includes restrictions on the use of foreign capital in the operation of such firms. Russia agreed during WTO negotiations, however, to remove restrictions on foreign participation in this sector upon its accession.

The Russian telecommunications sector is governed by the Law on Communications, dated July 2003 and the law on "Information, Information Technologies and Information Protection," dated July 2006. The latter law's impact on competitive alternative telecommunications operators, many of which enjoy large foreign investment, has been substantial, since these companies now fall under tight government regulation. In particular, regulations on interconnection -- the process by which alternative operators connect their networks to the Russian public telephone network -- place interconnection contracts and fees under the regulatory authority of the Ministry for Communications and Mass Media. Alternative operators fear that these fees will be raised to subsidize network upgrades of government-owned and ministry-controlled local and long distance operators.

The Land Code that was passed in 2001 allows equal treatment of domestic and foreign entities to buy land and buildings, although purchase of agricultural land by foreigners and foreign legal entities, or legal entities with more than 50% of foreign capital, is still prohibited. Foreign entities are restricted from buying land close to federal borders and in areas that the President determines critical to national security. On January 12, 2011, Russia published a presidential decree listing 380 areas around the country, primarily along its borders, in which the sale of land to foreigners or foreign companies is forbidden. A ban on the ownership of real estate by foreigners has been in force in Russia's border areas since 2001, but the geographic scope of the ban had not been definitively established.

The government enacted the Strategic Sectors Law (SSL) in May 2008. The SSL introduced a list of 42 "strategic" sectors in which purchases of "controlling interests" by foreign investors must be pre-approved by the Russian government. The list of restricted sectors includes: enterprises in the nuclear industry or involved in handling radioactive materials; enterprises involved in work on infectious diseases; arms,

munitions, and military equipment production, maintenance, or repair; the aviation and space industries; certain data-transmission (radio, television, telecommunications) infrastructure; production and distribution of encryption technologies and equipment; production and sales of goods and providing services under conditions of a "natural monopoly" (e.g., activities such as operating certain gas networks); newspapers with a circulation of more than one million; and natural resource extraction.

Under the procedures created by the SSL, the Federal Antimonopoly Service conducts initial vetting of proposed foreign investments, and in some cases the Federal Security Service (FSB) conducts additional verification to determine whether the transaction would result in a foreign company gaining control over a strategic business. Once vetting is completed, the Government Commission on Foreign Investment, chaired by the Prime Minister, is charged under the SSL with reviewing proposed transactions and either approving or denying them, or deferring them for additional review. Partly in response to investor criticism, in 2011 Russia amended the law to simplify the approval process and narrow the range of potential investments requiring formal review by the commission. Some foreign investors have raised concerns that the law could be used to restrict foreign investors' access to Russia's strategic sectors. Since 2008, however, the commission has approved 128 of 136 applications for foreign investment. Many of the applications came from Russian-owned companies based offshore.

The Strategic Sectors Law and Russian subsoil legislation require government approval for foreign investment in excess of 10% in companies operating subsoil plots of "federal significance," as well as for foreign investment in excess of 5% if the target company is state-owned. In November 2011, President Medvedev signed an amendment that raised the foreign investment threshold for non-state companies from 10 to 25%. In addition, subsoil legislation limits the licensing of strategic fields located offshore, on the continental shelf, to Russian legal entities at least 50% controlled by the government with at least five years of experience in the development of fields on the continental shelf. Foreign companies may participate in shelf projects as a minority partner.

Russian oil production continues to grow increasing by 2.2% in 2010 and by another 1.2% in 2011. Oil production in 2011 reached 10.27 million barrels per day, a new post-Soviet oil production record. High global oil prices along with new output from several major fields, primarily from state-owned Rosneft's giant Vankor field, are the main causes of recent production increases. However, many analysts and oil sector executives continue to predict longer-term oil production stagnation and decline without further fundamental reforms to the sector's onerous tax structure. Oil taxes are levied on revenues, instead of on profits, hindering needed large investments in new fields. Rosneft's success in obtaining tax breaks were an essential component of the decision to proceed with the development of the Vankor field. Rosneft, Gazprom and other companies are pushing for similar tax breaks for the development of offshore and other new field projects.

Russia's power generation sector is in urgent need of modernization and extension of generation capacity. Further delay in expanding electricity output could result in a drag on industrial growth. In 2003, the International Energy Agency's annual World Energy Outlook predicted that from 2003 to 2030, Russia's power sector would require roughly \$380 billion in new investment. According to Russia's Ministry of Energy, the average energy efficiency of gas-fired power stations in Russia is only 38%; its goal is to raise that efficiency to 53% by 2030.

In aviation, many of the Russian-flagged carriers have aging fleets and use outmoded avionics and engines. Several are seriously considering significant purchases or wet-leases of foreign aircraft in an attempt to be more competitive with Western airlines.

When purchases do occur however, the effect of tariffs, VAT, and customs handling fees on aircraft is equivalent to a 40% tax, making it virtually impossible for Russian airlines to afford to purchase foreign planes. That said, under the latest Customs Union decision related to aircraft tariffs, passed last fall, exemptions were created to facilitate key purchases for leading airlines. Regulations and tariff levels in this area remain subject to change and potential market entrants should check on current conditions.

New regulations have also been introduced for certain cargo aircraft. Previously, cargo aircraft were subject to general regulations and were not classified into separate categories. Under the new regulations, the customs duty rate applicable to cargo aircraft having a maximum take-off weight in excess of 370,000 kg depends on whether such aircraft have an installed cargo ramp. If a cargo aircraft has a maximum take-off weight in excess of 370,000 kg and an installed cargo ramp, it is subject to 20% customs duty. If such aircraft has no cargo ramp, it is subject to a 0% customs duty.

At the end of 2010, following intense negotiations with the EU, Russia agreed to postpone through 2011 a planned increase in export duties on raw timber from the current rate of 25% to 80%. Initially, the major objective of the measure was to stimulate the development of a domestic wood processing industry and to encourage the export of sawn lumber and value added wood products. The government has indicated that the moratorium on raising export tariffs on coniferous logs and round wood will continue in 2012.

In September 2011, the Russian Coordinating Center of the National Internet Domain (the Coordination Center) issued an updated version of the "Regulations for Domain Names Registration in .RU and .PФ domains," effective November 11, 2011 in an effort to harmonize the procedure of national domain registration in both .RU and .PФ domains. These Regulations have lifted a number of restrictions imposed in the previous versions, such as the former restriction on non-Russian residents from registering domain names in the .PФ domain. Currently, not only Russian citizens and businesses registered in the country (as was the case with the second stage of the registration for Cyrillic domain names, November 11, 2010 – November 10, 2011), but also non-Russian residents are able to purchase .PФ domain names. Both .RU and .PФ domain names may be registered for a fee of approximately \$20 for a one-year period, with the possibility of subsequent renewal of the domain name's registration annually. To date, the Coordination Center has registered over 925,000 domain names in the .PФ domain.

A new law on electronic digital signatures went into effect on April 8, 2011 that should considerably widen the sphere of application of electronic signatures, including foreign electronic signatures. The law states that electronic documents signed by electronic signatures will have the same legal effect as paper documents signed by hand provided that in case of simple electronic signatures and advanced signatures the parties shall explicitly agree to it or it shall be additionally stipulated by the Russian law.

While this law represents an important step forward, licensing requirements related to goods with encryption technology, present serious obstacles to trade in goods that Russia requires for further development of electronic commerce. Currently, any IT product requires a notification from the Russia's Federal Security Service (FSB), which a company should be able to obtain in 10 days. If the product contains low levels of cryptography, the FSB can grant authorization to import. If the product contains higher levels of cryptography, the FSB informs the importer of the need to apply for an import license from the Ministry of Industry and Trade. This permission and licensing process can take six months or longer to complete. Leading U.S. IT companies contend that the current system impedes imports, delays the creation of an innovation and knowledge-based economy in Russia, and hampers the further development of their R&D centers in Russia. Russia's WTO accession documents include clarifications on what constitute "mass market" goods not subject to notification. This "mass market" category should help to facilitate access for U.S. exports to the Russian market, but implementation will need to be observed closely, as Russia will maintain the authority to define what constitutes a "mass market" good.

There are similar licensing requirements which impact other high tech business such as energy industry service providers. New technology brought in by western service companies must be certified by Russian experts, a lengthy and thus expensive process, before it is permitted entry into Russia.

Both Russian and foreign businesses frequently complain about so-called "raiding" ("reiderstvo"), a practice which refers to the criminal takeover of a business through corruptly obtained legal documents. Raids are often carried out by professional raiders, sometimes working in tandem with corrupt officials and former employees or business partners of the victim company. Raids can be difficult to protect against as they rely on legal documents and frequently result in the victim being tied up in litigation for extended periods of time while the assets are transferred through a series of shell companies to an ostensible good faith purchaser. To minimize the risk of such attacks, investors are urged to vet local partners, review all business documents and make sure that documents are properly secured.

As many details regarding the operation and implementation of Customs Union regulations are still being worked out, there is a lack of clarity in many areas such as import licenses, customs procedures and IPR enforcement. As part of the CU preparations, the GOR is planning to standardize Russia's, and the CU's, technical regulations in line with European practices. These proposed regulations are likely to increase restrictions on trade practices and may have a large impact on U.S. exports to Russia.

## **Import Requirements and Documentation**

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The CU harmonized tariffs entered into effect on January 1, 2010, and the unified Customs Code took effect on July 1, 2010. These two documents now regulate trade in the integrated customs zone. The CU continues to implement the new regulations governing its structure and tariffs, as well as determining revenue sharing, and organizing logistical procedures for shipments. As a result, U.S. exporters have been facing additional delays, valuation questions, and other issues.



Customs clearance as a general rule should be performed in the jurisdiction of the respective participants in foreign economic operations. Starting January 1, 2010, goods transiting to Russia and/or Kazakhstan from foreign suppliers through Belarus are customs cleared at the CU's external frontier in Belarus. Starting July 1, 2011, goods imported through Kazakhstan should be customs cleared on the Kazakhstan border.

Some freight forwarders have noted that using Belarus as an entry point for goods bound for Russia can be advantageous. These forwarders indicated that the customs procedures at ports of entry in Belarus are often more efficient than Russian ports of entry. Since the Customs Union allows products to be transshipped between Russia, Belarus and Kazakhstan without additional customs clearance, this provides an opportunity for importers to bypass the more cumbersome Russian border crossings. However, the transportation infrastructure in Belarus is not as developed as other ports of entry, which may cause delays. The main seaport for Belarus is Gdansk, Poland with goods then transferred via truck or rail to the Belarus border.

Importers are required to complete a Russian customs freight declaration for every item imported. A declaration must be supported by the following documents: contracts, commercial documents such as commercial invoices and packing lists, transport documents, import licenses (if applicable), certificates of conformity and/or safety (see "Product Standards" below) certificates of origin (if applicable), sanitary certificate (if applicable), import permission and licenses for products containing encryption technology, and documents confirming legitimacy of declarants/brokers/importers.

As for all exports, U.S. exporting firms are required to complete a Shipper's Export Declaration (SED), but this document does not need to be presented to Russian Customs, although they may ask for it. Exporters must present the appropriate export license (see next section), if one had to be obtained, at customs. Customs officials may seek other documentation to substantiate the declared value of any shipment.

In addition, currency control regulations require issuance of a "transaction passport" for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

## **U.S. Export Controls**

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The U.S. Department of Commerce's Bureau of Industry and Security (BIS) is responsible for implementing and enforcing the Export Administration Regulations (EAR), which regulate the export and re-export of some commercial items, including "production" and "development" technology. The items that BIS regulates are often referred to as "dual use" since they have both commercial and military applications. Please note that even commercial items without an obvious military application may be subject to the EAR and may even require an export license. Items with an Export Control Classification Number (ECCN) that are regulated for Chemical and Biological Weapons (CB), National Security (NS), Missile Technology (MT), Regional Stability (RS) or Crime Control (Column 1 or 2) purposes may require a license from BIS for export to Russia. If you are unsure whether your product is considered a "controlled item" under the EAR, please call +1 (202) 482 4811 and a counselor in the Office of Export Services should be able to help.

Further information on export controls is available at:  
<http://www.bis.doc.gov/licensing/exportingbasics.htm>.

BIS has developed a list of "red flags," or warning signs, intended to discover possible violations of the EAR. These are posted at:  
<http://www.bis.doc.gov/enforcement/redflags.htm>.

Also, BIS has "Know Your Customer" guidance at:  
<http://www.bis.doc.gov/Enforcement/knowcust.htm>.

If there is reason to believe a violation is taking place or has occurred, report it to the Department of Commerce by calling the 24-hour hotline at +1 (800) 424 2980, or via the confidential lead page at: <https://www.bis.doc.gov/forms/eeleadsntips.html>.

The EAR does not control all goods, services, and technologies. Other U.S. government agencies regulate more specialized exports. For example, the U.S. Department of State has authority over defense articles and services. A list of other agencies involved in export control can be found on the BIS web site or in Supplement No. 3 to Part 730 of the EAR, which is available on the Government Printing Office Web site at:  
[http://www.access.gpo.gov/bis/ear/ear\\_data.html](http://www.access.gpo.gov/bis/ear/ear_data.html).

BIS provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two day seminars and focus on the basics of exporting as well as more advanced topics. A list of upcoming seminars can be found at:  
<http://www.bis.doc.gov/seminarsandtraining/index.htm>.

For further details about the Bureau of Industry and Security and its programs, please visit the BIS website at: <http://www.bis.doc.gov>.

## **Temporary Entry**

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Temporary entry of goods is allowed with full or partial relief from customs duties and import VAT for a period of up to two years. Russian Customs issues authorization for temporary entry of goods based on a written application submitted by an importer. The list of goods for temporary entry with full relief from customs duties and taxes as well as terms of such relief is regulated by the Customs Union.

Full conditional relief from customs duties is allowed when it does not affect the Russian economy, such as the temporary import of:

- Containers, pallets, and other types of containers and packages for repeated use;
- Goods for the purposes of the development of international relations in the scientific, cultural, sports, cinematography and tourism fields;
- Products for international assistance;
- Commercial samples, not for sale, used at trade shows and exhibitions.

All goods falling outside of this list are subject to partial relief only, as established by the Customs Code. The Customs Code provides for temporary import with a partial exemption from customs duties for 36 months when goods are classified as main

production assets on the condition that such goods are not owned by the Russian entities using them in the territory of the Russian Federation. When partial relief from customs duties is applied, 3% of the amount of customs duties and taxes should be paid on a monthly basis for the period when goods are located in the customs territory of the Russian Federation. In practice, however, many U.S. companies bringing in commercial samples have had problems with Russian Customs. Sometimes officials demand that the importer pay a bond to cover any applicable import duties if the goods are sold in Russia. Russian Customs accepts the use of ATA Carnets, which are widely and effectively used.

For further information, please refer to the Customs Union Website: [www.tsouz.ru](http://www.tsouz.ru) or Russian Federal Customs Service Website: <http://eng.customs.ru/> or <http://www.tks.ru>.

## **Labeling and Marking Requirements**

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Labels on food items must feature the following information in the Russian language:

- Type and name of the product;
- Legal address of the producer (may be given in Latin letters);
- Weight/volume of the product (if item is preserved in liquid, weight without liquid mass);
- Food contents (name of basic ingredients/additives listed by weight in decreasing order);
- Nutritional value (calories, vitamins if their content is significant or if product is intended for children, for medical, or for dietary use);
- Conditions of storage;
- Expiration date (or production date and period of storage);
- Directions for preparation of semi-finished goods or children's foodstuffs;
- Warning information with regard to any restrictions and side effects;
- Terms and conditions of use.

Labels on nonfood items must include:

- Name of the product;
- Country of origin and name of manufacturer (may be given in Latin letters);
- Usage instructions;
- Main characteristics, rules and conditions for effective and safe use of product;
- Any other information determined by the state regulation body.

It is advisable to place the Rostest mark on the label for products that have appropriate Rostest and sanitary- epidemiological certificates. This rule is applicable to both food and nonfood items.

## **Prohibited and Restricted Imports**

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The import and export of goods in Russia is carried out in accordance with the Federal Law on "Government Regulation of International Trade Activities" of 2003, which stipulates the application of quotas, licenses and other temporary restrictions on such operations.

Import licenses are issued by the Russian Ministry of Industry and Trade or its regional branches, and controlled by the Federal Customs Service. Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many other items as well including:

- Alloys
- Carpets
- Color televisions (14, 21, and 25-inch)
- Combat and sporting weapons
- Ethyl alcohol
- Explosives
- Medicine, also used for veterinary purposes
- Military and ciphering equipment
- Precious metals
- Radioactive materials and waste
- Self-defense articles
- Stones
- Strong poisons and narcotics
- Tobacco products
- Vodka and many other types of alcoholic beverages
- Poultry meat
- Cattle meat, chilled and frozen
- Pork
- Technical means purposed for receiving non-disclosed information
- O-zone damaging substances
- Chemicals used for plant's protection
- Sturgeon fish species, including caviar
- Crayfish
- Wild animals, wild plants, ivory, and corals
- Valuable wood species
- Cultural valuables

To learn whether an import license is needed for a particular product, contact the Russian Ministry of Industry and Trade licensing department (<http://www.minpromtorg.gov.ru/eng>).

## **Customs Regulations and Contact Information**

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As a member of the World Customs Organization, the Convention of Temporary Imports and the International Convention on Harmonized Commodity Description and Coding System, Russia is obligated to adhere to internationally accepted customs regulations and practices. In January 2004, Russia implemented a new Customs Code as part of its WTO accession efforts. The new code reduced the time for customs clearance from ten to three days. Now that Russia is moving toward WTO membership, it is planning the next steps towards transparency and simplification of customs procedures; however no instant progress is expected in the short run. Russia also offers advance declaration of cargo before arrival at customs. Other important changes introduced by the Code include:

- Restricting the Russian Federation State Customs Committee from issuing contradictory additional regulatory acts;

- Making possible the settlement of disputes with customs authorities directly in a court of law;
- Establishing a definitive and comprehensive list of documents that must be submitted for customs clearance;
- Prohibiting customs authorities from refusing to accept a declaration containing inaccuracies, if the inaccurate information has no impact on the defrayal of customs payments, or does not place restrictions in foreign trade;
- Allowing clearance of goods through any customs office;
- Providing urgent customs clearance for perishable goods, express cargoes, or time-sensitive materials for the mass media.

In 2010, Russia's existing Customs Code was replaced by the unified Customs Code of the Customs Union and the Law on Customs Regulation, which took effect as of July 1 and December 2010, respectively. The Law on Customs Regulation, in particular, contains the "ex-officio amendment," a key part of Russia's commitments under the 2006 U.S.-Russia Bilateral Agreement on IPR.

Recently, the priorities for customs modernization included improvement in regulations, implementation of IT systems and enhanced dialogue with market participants. Starting in 2009, many importers joined the e-clearance system, which allows submitting the declaration in electronic form and process customs payments using Internet protocols. There is also a clearer understanding of the continued need for customs to take effective action against significant levels of grey market practices and to implement effective control coordinated on a global scale. However, many examples of arbitrary practices by local customs officials still exist and are encouraged by ambiguities in customs legislation. Small and medium-sized enterprises remain most vulnerable to these arbitrary practices.

On December 16, 2011, Trade Ministers approved the terms of Russia's accession and issued a formal invitation for Russia to join the World Trade Organization (WTO) as its 155th Member, culminating Russia's 18-year effort to join the multilateral trading system. This historic step will help unify the customs rules and make them relevant to world wide standards and practices for clearing goods at customs.

### **Customs Valuation**

The customs value is generally considered to be the CIF (cost-insurance-freight) price of the imported goods. A customs-processing fee is also levied. If customs officials do not agree with the customs value of goods declared they are authorized to request additional documents that support the declared customs value. It is often normal practice for customs officials to request the Shippers Export Declaration (SED), which they consider to be proof of the customs value. However, presenting SED is not mandatory and the importer can present other available documents, including an official company letter that attests to the shipment's correct value. Since 2008, Russian Customs has been particularly zealous in its efforts to determine the highest possible value for imported goods. In fact, it has recently highlighted its role in "revenue generation," whose income comprises about 50% of Russia's state budget.

For further information, please refer to the Russian Federal Customs Service Website: <http://eng.customs.ru/>.

## Standards

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## Overview

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Despite positive changes in the last several years, the standards regime in Russia still lacks transparency. Russia continues to rely on product testing as a key element of the product approval process. Other types of product safety assurance, such as plant auditing, quality systems, and post market vigilance, are still underdeveloped. Russia continues to follow redundant practices of further testing of internationally accepted certified products, which can delay entry of a variety of products into the country.

In addition, the former Soviet federal authority on standardization, Gosstandart, has been restructured twice as part of a larger government reorganization which led to some uncertainty as to exactly who in the agency performed what function, further adding to delays in discharging its responsibilities. The current government authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology (whose abbreviated name is Rosstandart). It is an agency of the Ministry of Industry and Trade. Until June 2010, the abbreviated name was Rostekhnregulirovanie, but it was then changed to Rosstandart because of its similarity to the former abbreviation Gosstandart that was used in Soviet times. Affiliated with this new agency are 485 technical committees, comprised of research institutes, which develop standards.

## Standards Organizations

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The following are the key government standards organizations in Russia.

### **Federal Agency for Technical Regulations and Metrology (Rosstandart)**

9, Leninsky Prospect  
Moscow, 119991  
Tel: +7 (499) 236 0300  
Fax: 7 +(499) 236 6231  
E-mail: [stand@gost.ru](mailto:stand@gost.ru)  
<http://www.gost.ru/wps/portal/pages.en.Main>

### **Federal Service for Control over Healthcare and Social Development (Roszdravnadzor)**

Slavyanskaya sq. 4, building 1  
Moscow, 109074  
Tel.: +7 (495) 698 4538  
E-mail: [info@roszdravnadzor.ru](mailto:info@roszdravnadzor.ru)

<http://ww+w.roszdravnadzor.ru>

**Federal Service for Supervision of Consumers Protection and Welfare  
(Rospotrebnadzor)**

Vadkovskiy pereulok, house 18, stroenie 5 and 7

Moscow, 127994

Tel.: +7 (499) 973 2690

E-mail: [depart@gsen.ru](mailto:depart@gsen.ru)

<http://rospotrebnadzor.ru/en/web/en/>

**Federal Service for Ecological, Technological and Nuclear Surveillance  
(Rostekhnadzor)**

ul. Luykhanova, house 4, korpus 8

Moscow, 105066

Mr. Evgeniy Frolov, Head of the Department on Licencing

Tel: +7 (499) 265 7955

Tel.: +7 (499) 657 9179

Fax: +7 (499) 261 7324

<http://www.gosnadzor.ru/>

**Federal Agency of Svyaz (Rossvyaz) Ministry of Communications and Mass Media**

7 Tverskaya Street

Moscow, 125375

Mr. Vitaliy Kreindelin Head of Conformity Department

Tel: +7 (495) 771 8559

Fax: +7 (495) 771 8710

E-mail: [mail@minsvyaz.ru](mailto:mail@minsvyaz.ru)

<http://eng.rossvyaz.ru/>

**VNIIS (Research Institute for Certification)**

3/10, Elektrichesky Pereulok, Building 1

Moscow, 123557

Phone: +7 (499) 253 7006

Fax: +7 (499) 253 3360

E-mail: [vniis@vniis.ru](mailto:vniis@vniis.ru)

<http://www.vniis.org/>

Federal Service on Accreditation (Rosakkreditastia) Ministry of Economic Development

Trubnikovskiy per. House 19 (should be said on the envelope "for Rosakkreditastia")

Mr. Savva Shipov, Head of the Service

Moscow, 121069

Tel: +7 (495) 695 5843

E-mail: [FSA@economy.gov.ru](mailto:FSA@economy.gov.ru)

**NIST- Notify U.S. Service**

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based, e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your



access to international markets. Register online at Internet URL:  
<http://www.nist.gov/notifyus/>.

## Conformity Assessment

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In Soviet times all products sold in the country, both native and foreign, had to be certified according to the gosudarstvennyye standarty (state standards). Those standards were published and compiled under the abbreviation “GOST” and classified according to a numbering system for the different products categories. GOST standards were mandatory and covered nearly every type of product sold in the country. After the collapse of the Soviet Union, Russia made changes to this old regulatory system. These newly developed standards have the abbreviation GOST-R instead of GOST. The regulatory document that the company received was called GOST-R certificate, indicating that the products confirmed to the requirement of those standards.

In recent years there has been a substantial movement toward the adoption of common international language on product standards and certification procedures, and some improvements have been made

Federal Law No. 184-FZ “On Technical Regulations” ( December 27, 2002) was intended to change the existing cumbersome standardization and certification systems and harmonize Russian legislation with international standards by transitioning from a mandatory certification system to a modern system based on self-declaration. To that end, the government approved three consecutive programs aimed at developing 400 technical regulations that should be used instead of the old GOST and GOST-R standards. The regulatory approval documents were named Certificates/Declarations of Conformity. Only 24 technical regulations were developed, however, which are in operation today. One of the reasons cited for the delay of this reform is the complicated system of approval. Also, a number of government bodies resisted the creation of these technical regulations because they wanted to return to the old system where they controlled these regulations.

To move this reform process along, in December 2009 amendments to Federal Law No. 184-FZ were approved. According to these amendments, a special government body would use a much simpler process of approving technical regulations. Many experts assumed that Rosstandart would become that government body, but on January 20, 2010, President Medvedev announced that the functions in this area will be divided between the Ministry of Industry and Trade and Rosstandart, which is, in fact, under the Ministry’s jurisdiction.

Establishment of the Customs Union (CU) between Russia, Belarus and Kazakhstan also affected the regulatory regime because the technical regulations developed by three countries must be consistent with each other. The information about new technical regulations, approved by the three countries can be found on the CU website ([www.tsouz.ru](http://www.tsouz.ru))

Currently, the prior system of certification, GOST-R, has been replaced by Certificates and Declarations of Conformity. The process of obtaining these certificates is still time consuming and applies to virtually all products entering the Russian market. The different types of certification and the process for obtaining these certificates are reviewed in the next section.



As the result of the establishment of the CU, the system of obtaining certification documents has changed. Now there are two sets of documents dedicated to Technical Regulations and Sanitary Regulations.

*Technical Regulations (Certificate of Conformity/Declaration of Conformity)*

As of July 1, 2010, new rules for conformity assessment, established in the CU, came into effect. As the result, manufactures can now obtain unified certificates/declarations of conformity for all three countries. The full set of the documents, including the unified list of accredited bodies and laboratories that governs this process, is published on the CU website ([www.tsouz.ru](http://www.tsouz.ru)). A “Unified list of products” was also established and according to this list, those products included need to have certificates of conformity/declarations of conformity. If a product is not included, then it should go through the conformity process according to the national standards of Russia, Kazakhstan, or Belarus, depending on the final destination of the product.

*Sanitary Regulation (Certificate of State Registration)*

After July 1, 2010 the Certificate of State Registration was established for all products that need a Sanitary Certificate. Products which need a Certificate of State Registration are listed in part II of the “Unified list” that was approved by the CU Commission on May 28, 2010, No. 299 (last edition No. 456 dated November, 11, 2010). The procedure for obtaining Certificate of State Registration is also outlined on the CU website ([www.tsouz.ru](http://www.tsouz.ru)).

A number of other mandatory and voluntary certification systems also exist, which are partly managed by other ministries or agencies. Below are the most widely used certificates:

*Fire Safety Certificate:* The Federal Law No. 123-FZ “Technical Regulations of Requirement for Fire Safety,” which came into effect on May 1, 2009, now governs this process. Products requiring this certificate are listed in Government Decree No. 241 dated March 3, 2009.

*Certificate of Conformity/Declaration of Conformity for Systems of Communications:* The system of certification in the area of communication confirms that the equipment conforms to technical requirements. Rossvyaz is responsible for issuing those certificates. Rossvyaz obtained this function due to Government Decree No. 320 dated June 30, 2004. The list of communication devices which require a certificate of conformity can be found in Government Decree No. 532 dated June 25, 2005. Despite the fact that on November 1, 2011 the function of accreditation of bodies and laboratories was moved from Rossvyaz to the newly established organization – Rosakkreditastia, Rossvyaz still publishes an updated list of technical requirements on its website.

*License (permission) from Rostekhnadzor* allows the manufacture, installation and use of industrial machinery and equipment for the petrochemical, metallurgical and other industrial facilities in Russia. The process and list of products requiring this certificate are listed in Rostekhnadzor’s Order No. 112, dated February 29, 2008.

Approval for Encrypted Products is issued by the Federal Security Service (FSB), while the Ministry of Industry and Trade issue an import license.

Russia participates in the following international certification systems:

- System of the International Electrotechnical Commission (IEC) for tests of electrical, electronic and related equipment on conformity to safety standards (<http://www.iecq.org>)
- System of certification of passenger cars, trucks, buses and other transport vehicles (<http://www.unece.org>)
- OIML Certificate System of Measuring Instruments (<http://www.oiml.org>)

Russia's complicated, cumbersome and often changing system of certification as well as cultural and language barriers are a challenge for foreign companies attempting to certify products without appropriate legal advice or assistance from experienced distributors or consultants. In order to minimize time and expenses, it is recommended that U.S. companies work with reliable partners and consulting companies on registration and certification issues. For additional information regarding product certification, please contact the U.S. Commercial Service in Moscow.

**Certification Service Providers** (this list is not exhaustive and is not to be construed as an endorsement of the companies listed below).

#### **Russia**

##### **Rostest Moscow (various products)**

Russian Center for Tests and Certification  
31 Nakhimovsky Prospect,  
Moscow, 117418  
Phone: +7 (495) 544 0000  
E-mail: [spravka@rostest.ru](mailto:spravka@rostest.ru)  
<http://www.rostest.ru/>

##### **Consult Business Group (pharmaceutical products including biological active supplements, medical equipment and cosmetics)**

Butyrskaya ul, 77, Business Center "Diagonal House", 8<sup>th</sup> floor  
Moscow, 127015  
Tel.: +7 (495) 797 4963  
E-mail: [info@c-b-g.ru](mailto:info@c-b-g.ru)  
<http://www.c-b-g.ru/en>

##### **Eurotest**

4 Krutitskiy pereulok, house 14  
Moscow, 109044  
Tel. +7 (495) 660-52-28  
E-mail: [eurotest@eurotest.ru](mailto:eurotest@eurotest.ru)  
<http://www.eurotest.ru>

##### **TEXCi**

Contact: Maksim Ivanov, Sales Manager  
10 Angarskaya street  
Moscow, 125635 Russia  
Phone: +7 (926) 358 8804

Fax: +7 (495) 921 0841 ext. 101  
Email: [maksim.ivanov@texci.ru](mailto:maksim.ivanov@texci.ru)  
Web: <http://en.texci.ru/>

**Russian Register - Baltic Inspectorate Ltd.**

Contact: Vitaliy Krichevskiy, Marketing and Business Development Director  
87, Maliy Prospect P.S.  
St. Petersburg, 197022  
Russian Federation  
**Phone:** +7 (812) 332 9536/37  
**Fax:** +7 (812) 332 9534  
**Email:** [rr-baltic@rusregister.ru](mailto:rr-baltic@rusregister.ru), [krichevsky@rusregister.ru](mailto:krichevsky@rusregister.ru)  
**Web:** <http://www.rr-baltic.ru/>

**United States**

**Velosi Group** (Oil & gas, petrochemical and refining industries)  
<http://www.velosi.com>

**Nemko**

<http://www.nemko.com>

**Russian Standard, Ltd. Certification and Regulatory Consulting Center** (almost all areas, except aviation equipment and aviation instruments, military products, telecommunication equipment)  
<http://www.rosstandard.com>

**TUV America Inc.**

<http://www.tvuamerica.com>

**TUV Rheinland**

<http://www.tuv.com>

**Underwriters Laboratories (UL)**

<http://www.ul.com>

**Accreditation**

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In order to improve the whole certification system President Medvedev signed Presidential Decree No 86 on January 24, 2011, "On Unified National System of Accreditation", according to which a new "approval" agency, the Federal Service on Accreditation (Rosakkreditastia), was established. This Agency reports to the Ministry of Economic Development and is responsible for the establishment of the Unified National System of Accreditation. But most importantly, it controls all legal entities and entrepreneurs, who are accredited as testing laboratories, and issues certificates to organizations. It is expected that a number of new private companies and entrepreneurs will enter this market and, as a result of competition, prices in this sector will decrease, which will in turn drive down consumer prices. It is expected that the certificates will be recognized by other countries, so companies will not have to go through both a national and international certification process.

Various federal executive authorities used to have responsibility for carrying out

accreditation in accordance with the relevant legislation. There were 16 government agencies that were in charge of accreditation, including Rosstandart, Rostekhnadzor, Rospotrebnadzor, and Rossvyaz. Rosstandart used to run the state registry of all accredited organizations. Certification authorities and test laboratories, both Russian and foreign, were accredited in accordance with the following documents: GOST-R ISO/IEC 65-2000, GOST-R ISO/IEC 17021-2008, GOST-R ISO/IEC 17025-2006, GOST-R 51000.4-2008, GOST-R 51000.6-2008.

Bureaucratic incongruities, overlapping fields of activity and the application of different procedures and criteria in the accreditation process were common occurrences. Now this situation is expected to change for the better because they are now regulated under one entity – the Federal Service on Accreditation (Rosakkreditastia).

### Publication of Technical Regulations

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Proposed technical regulations are published (in Russian) on the Rosstandart website (<http://www.gost.ru>) for two months. Any Russian or foreign entity may comment (in Russian) to the contact listed on the website. Draft and final documents are published in the monthly “Vestnik of Technicheskogo Regulirovania” (“Journal of Technical Regulations”). This journal is an official publication of Rosstandart for its documents, instructions, rules, and decrees. “Vestnik of Technicheskogo Regulirovania” is the country’s effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership presumes that all changes in the standardization system will be transparent, thereby avoiding hidden obstacles (non-tariff barriers) in trading relations with WTO partners.

Another publication that can be found on Rosstandart’s website is “Mir Standartov” (“World of Standards”).

### Contacts

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#### **U.S. Commercial Service - Moscow**

8 Bolshoy Deviatinsky pereulok  
Moscow 121099, Russia  
Tel: +7 (495) 728 5580  
Fax: +7 (495) 728 5585  
E-mail: [Moscow.Office.Box@trade.gov](mailto:Moscow.Office.Box@trade.gov)

### Trade Agreements

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Russia currently participates in a free trade agreement with the Commonwealth of Independent States and the Customs Union with Belarus and Kazakhstan. Russia also has an association agreement with the European Union and has historically received NTR and GSP status from the United States.

### Web Resources

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#### **Bureau of Industry & Security, U.S. Department of Commerce**

Main site: [www.bis.doc.gov](http://www.bis.doc.gov)  
Export Controls: [www.bis.doc.gov/licensing/exportingbasics.htm](http://www.bis.doc.gov/licensing/exportingbasics.htm)

Possible Violations: [www.bis.doc.gov/enforcement/redflags.htm](http://www.bis.doc.gov/enforcement/redflags.htm)

Russian Federal Customs Service: <http://eng.customs.ru/>

Russian Ministry for Economic Development:  
<http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home>

Russian Ministry of Industry and Trade: <http://www.minprom.gov.ru/eng>

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## Chapter 6: Investment Climate

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### Openness to, and Restrictions Upon, Foreign Investment

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The Russian market presents many promising investment opportunities. Capitalizing on those opportunities, however, requires that firms navigate a complicated and fluid set of challenges ranging from corruption to a weak judiciary to excessive red tape. Russia recognizes foreign investment's critical role in the country's economic development and has encouraged foreign investment by removing administrative barriers and establishing special economic zones, high-technology parks, and investment promotion funds. At the same time, despite the Russian government's stated goals of combating corruption and improving the investment climate, independent organizations continue to rank Russia as one of the most difficult major economies in which to do business.

Russia was one of the countries most adversely affected by the 2008-2009 financial crisis, with 2009 GDP dropping by 7.9%. Russia's economy grew 4.0% in 2010 and further picked up in 2011, with annual growth predicted to reach 4.2-4.5%. From 2004-2008, foreign direct investment (FDI) inflows picked up substantially, rising to \$75 billion in 2008. In 2009, however, FDI inflows fell by almost half and have remained well below 2008 levels. According to Prime Minister Putin, FDI inflows for the first ten months of 2011 equaled \$36 billion, an 11.8% increase from the same period of 2010. The last few years have also seen large amounts of capital leaving the country. Russia experienced a net capital outflow of \$133.9 billion in 2008 and \$56.9 billion in 2009. In 2010, capital outflow slowed to \$33.6 billion, but has accelerated again in 2011, and is expected to

reach about \$85 billion for the year. These outflows can be attributed to external as well as Russia-specific factors.

President Medvedev and Prime Minister Putin have repeatedly emphasized the importance of improving Russia's business climate and attracting foreign capital, particularly in the high technology sector. The country's solid base of expertise in the scientific and mathematics fields, combined with a sizable market and an economy growing faster than most others in the region, have helped entice a series of U.S. firms to make headline acquisitions and investments in Russia. Roughly a dozen U.S. companies and organizations already have announced their intention to invest in the Skolkovo Innovation Center, Russia's initiative to create a high-tech cluster, modeled on the example of Silicon Valley, in Moscow's outskirts. Nevertheless, the investment climate has been undermined by the slow pace of structural reform and the government's leading role in certain sectors of the economy, notably energy. Additionally, past government actions have contributed to a sense of wariness among some foreign investors about the risks of the Russian market, such as the apparently politically-motivated investigations into businesses. Rule of law, corporate governance, transparency, and respect for property rights are gradually improving but remain key concerns for foreign investors. While Russia took significant steps in 2010 and 2011 to improve the legal framework for intellectual property protection, effective enforcement remains a challenge. Possible liabilities associated with existing operations (especially environmental cleanup) and still-developing bankruptcy procedures are additional factors affecting the investment climate. In short, while there is strong interest in the opportunities Russia presents, many U.S. companies, particularly small and medium-sized enterprises, remain cautious about investing.

While a legal structure exists to support foreign investors, the laws are not always enforced in practice. The 1991 Investment Code and 1999 Law on Foreign Investment guarantee that foreign investors enjoy rights equal to those of Russian investors, although some industries have limits on foreign ownership (discussed below). Unfortunately, corruption plays a sizeable role in the judicial system (see the Dispute Settlement section). Russia has sought to enhance consultation mechanisms with international businesses, including through the Foreign Investment Advisory Council, regarding the impact of the country's legislation and regulations on the business and investment climate. Still, the country's investment dispute resolution mechanisms remain a work in progress, and at present can result in a non-transparent, unpredictable process.

Russian government officials have repeatedly stressed that foreign investment and technology transfer are critical to Russia's economic modernization. At the same time, the government adopted new policies to more effectively control foreign investments in key sectors of the Russian economy. In May 2008, Russia enacted the Strategic Sectors Law – specifying 42 activities that have strategic significance for national defense and state security – and established an approval process for foreign investment in these areas. According to the law, investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from a government commission headed by Russia's Prime Minister. Partly in response to investor criticism, in 2011 Russia amended the law to simplify the approval process and narrow the range of potential investments requiring formal review by the commission. With respect to the extractive industries, previously, government approval was required for foreign ownership above 10% of companies operating subsoil plots of "federal significance." The November

reforms raised the threshold to 25%, a move that experts predict will greatly reduce the number of cases considered by the commission. Some foreign investors have raised concerns that the Strategic Sectors Law could be used to restrict foreign investors' access to certain sectors. Since 2008, however, the commission has approved 128 of 136 applications for foreign investment.

Between 2004 and 2010, the share of Russia's private sector in GDP decreased from 70% to 65%, according to the European Bank for Reconstruction and Development. The government also continues to hold significant blocks of shares in many privatized enterprises. In an effort to increase market forces in the economy and raise revenue for the federal budget, in 2009 the government began considering more ambitious privatization of strategic enterprises. In October 2010, the Russian Cabinet approved a major Privatization Plan, which Russia is now in the process of expanding, that paves the way for selling an estimated \$60 billion of government stakes in about 1000 companies (out of a total of 6,467 companies with some government ownership). The government will retain controlling stakes, however, in major Russian companies such as Rosneft, Russian Railways, and banking giants Sberbank and VTB. The pace of privatization has been slow, however, and Russian officials have signaled that it is unlikely to accelerate in the near-term.

To date, treatment of foreign investment in new privatizations has been inconsistent. As with the 2011-2013 Privatization Plan, foreign investors participating in Russian privatization sales are often confined to limited positions. As a result, many have faced problems with minority shareholder rights and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal ministries and agencies that exercise ownership and other authority over companies whose shares they may want to acquire.

The following table includes the most recent data from indices measuring the investment and business climate in Russia:

Measure	Year	Index/Ranking
TI Corruption Index	2011	2.4 – 143 of 183 countries
Heritage Economic Freedom	2011	50.5 – 143 of 183 countries
World Bank Doing Business	2012	120 of 183 economies
Gov't Effectiveness (Worldwide Governance Indicators)	2010	-0.39 – Percentile rank: 41.6
Rule of Law (Worldwide Governance Indicators)	2010	-0.78 – Percentile rank: 26.1
Control of Corruption (Worldwide Governance Indicators)	2010	-1.07 – Percentile rank: 12.9
Fiscal Policy (IMF World Economic Outlook)	2011 (est.)	Government net annual borrowing: 1.11% of GDP
Trade Policy (Heritage Economic Freedom)	2011	68.2 (moderately free)
Regulatory Quality (Worldwide Governance Indicators)	2010	-0.39 – Percentile rank: 38.3
Business Start Up (World Bank Doing Business)	2012	111 of 183 economies



Land Rights Access (World Bank Doing Business)	2012	Construction Permits: 178 of 183 economies Registering Property: 45 of 183 economies
Natural Resource Mgmt (Natural Resource Management Index)	2011	90.3 on a 0 – 100 scale (100 is best)

## Conversion and Transfer Policies

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While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Finding a bank licensed to conduct foreign currency transactions is not difficult. Russia has no capital controls and there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital. Nonetheless, investors should seek expert advice at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which in Russia applies to both import and export transactions and certain loans. A business must open a "deal passport" with the Russian authorized bank through which it will receive and service the transaction or loan. A deal passport is a set of documents that importers and exporters provide to authorized banks. Such documents enable banks, the agents of Russian currency control, to monitor payments in respect of the transaction or loan and to report the corporation's compliance with currency control regulations to the Central Bank. Russia's regulations regarding deal passports are described under Instructions of the Central Bank of Russia number 117-I of June 15, 2004. In early 2011, the Central Bank of Russia expanded the list of grounds under which a deal passport does not have to be submitted.

Only authorized banks may carry out foreign currency transactions. According to currency control laws, the Central Bank retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account. The Central Bank does not require security deposits on foreign exchange purchases.

## Expropriation and Compensation

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The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to the courts of the Russian Federation, and the investor must be adequately and promptly compensated. At the sub-federal level, expropriation has occasionally been a problem, as has local government interference and a lack of enforcement of court rulings protecting investors.

## Dispute Settlement

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Russia has a body of conflicting, overlapping, and frequently changing laws, decrees and regulations, which complicates the environment for dispute resolution. In an attempt to address these challenges, First Deputy Prime Minister Shuvalov in 2010 was tasked with coordinating and overseeing efforts to improve the business and investment climate, including the protection of foreign and domestic investors. In 2011, President

Medvedev appointed Investment Ombudsmen in each Federal District to perform similar roles at the regional level. The government has also encouraged international business leaders to participate in the discussion of dispute resolution mechanisms, as well as individual commercial disputes, as part of their work in the Foreign Investment Advisory Council. While these steps offer some promise, overall the country's investment dispute mechanisms remain underdeveloped and largely non-transparent.

Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribes of judges and prosecutors to fabrication of evidence. Corruption likely does not play a role in the vast majority of cases, most of which involve relatively low stakes. A law enacted in late 2008 as part of President Medvedev's anti-corruption initiative requires that judges disclose their incomes and real estate assets, including those owned by their spouses and minor children. While this represents a step in the right direction, it is too early to assess the law's impact.

Another component of President Medvedev's anti-corruption initiative has been a series of amendments to the Code of Criminal Procedure – in 2008, 2009, and 2010 – to limit pre-trial detention of individuals accused of economic crimes. Implementation of these reforms has yielded mixed results. Prosecutors have sometimes avoided them by charging defendants under articles technically not covered by the amendments and judges have sometimes refused to apply them. Nevertheless, available statistics reveal a substantial decrease in the number of pre-trial detentions in cases involving economic crimes since the legislation was passed.

Commercial courts are required by law to decide business disputes relatively quickly, and many cases are decided on the basis of written evidence and little or no live testimony of witnesses. The commercial court workload is dominated by relatively simple non-contentious cases involving the collection of debts between firms and disputes with the taxation and customs authorities, pension fund, and other state organs. Taxpayer firms often prevail in their disputes with the government in court. The number of routine cases limits the time available to decide more complex cases. Many observers believe that over the twenty year period that the commercial court system has existed, its judges have grown more competent and better at writing decisions. Many lawyers nonetheless report that due to insufficient training, especially in complex business disputes, many judges often make poorly reasoned or simply incorrect decisions. Execution of court decisions is often problematic. Few firms pay judgments against them voluntarily and rumors of corruption concerning bailiffs, who are charged with enforcing decisions, are frequent, although hard evidence is more scarce.

Federal Law 262, in effect since mid-2010, requires the courts to publish their decisions online and otherwise make information about their activities publicly available. All Russian courts now have websites, which generally include a schedule of cases to be heard, the name of the judge, the location of the court, form documents that can be used by prospective litigants, and copies of decisions. Personal information is expunged before case decisions are posted online. The better websites allow citizens to calculate filing fees and search for analogous decisions. The commercial courts have played a leadership role in providing information online and using information technology. Electronic filing allows citizens to sign up to receive e-mail notifications of developments in cases of interest to them. NGOs have rated the compliance of courts with their

obligations under the law and found that the information provided varies greatly in quality from one region to another, but have noted a willingness by some courts to respond to queries and criticisms by improving their sites. Although there are gaps and failures to provide information, overall judicial transparency has increased since the law took effect in 2010.

Many attorneys refer Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 Russian law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued. Russia is a member of the International Center for the Settlement of Investment Disputes and accepts binding international arbitration. Russia is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, enforcement of international arbitral awards still requires action from Russian courts and follow-up by bailiffs, which have yet to become consistently effective enforcers of court judgments.

As noted above, commercial disputes between business entities are heard in the commercial court system. That court system has special procedures for the seizure of property before trial, such that it cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Additionally, the International Commercial Arbitration Court at the Russian Chamber of Commerce and Industry will hear claims if both parties agree to refer disputes there. A similar arbitration court has been established in St. Petersburg. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions.

President Medvedev has encouraged the more widespread adoption of alternative dispute resolution (ADR) to help courts handle their caseloads and to provide citizens with speedier and cheaper methods of resolving legal disputes. In January 2011, a new law took effect that authorizes the use of mediation in various kinds of disputes, including commercial ones, and provides for the confidentiality of mediation proceedings and for their enforceability in court. Although there are still issues concerning how the law will be applied, it represents an important step towards further development of ADR in Russia.

## **Performance Requirements and Incentives**

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Performance requirements are not generally imposed by Russian law and are not widely included as part of private contracts in Russia. However, they have appeared in the agreements of large multinational companies investing in natural resources and in production-sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia frequently depends on relationships with government officials and on a firm's demonstration of its commitment to the Russian market, this may result in offsets in practice.

The Russian government has strenuous requirements and an extremely cumbersome process of approval and renewal for visas and residence permits for foreign businessmen and investors. Additionally, requirements in some sectors that a certain percentage of staff be Russian citizens may have a negative impact on foreign investors. The situation is improving, however. As part of Russia's efforts to encourage investment in innovation sectors, the GOR has eased the regulations on visas and residence

permits for "highly-skilled" workers, and eliminated yearly quotas for foreign workers who fall into this category (defined by salary, position and education level). In addition, the United States and Russia are currently finalizing a bilateral visa agreement that will extend visa validities to 36 months for both Russian and American travelers, as well as extend terms of stay and reduce documentary requirements for Russian visas. This agreement is expected to take effect in the first half of 2012. Potential investors are advised to consult the [State Department's Country-Specific Information on travel to Russia](#), which includes the latest information on Russian visas.

## **Right to Private Ownership and Establishment**

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Both foreign and domestic legal entities may establish, purchase, and dispose of businesses in Russia. As noted above, foreign investment in sectors that are regarded as affecting national security may be limited.

## **Protection of Property Rights**

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The Constitution and a 1993 presidential decree give Russian citizens general rights to own, inherit, lease, mortgage, and sell real property. Foreigners enjoy similar rights with certain restrictions, notably the ownership of farmland and areas located near federal borders. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments. Thus far this law has been successfully implemented and generally effective. Mortgage lending is in its initial stages, and after a sharp contraction in 2008-09, the total value of mortgages in Russia is around 3% of GDP. New mortgage issuances in 2010, both by number and volume, were more than double that in 2009, totaling more than \$11 billion. In 2011, mortgage lending continued its strong growth, with new issuances amounting to \$13.6 billion in the first eight months of the year.

In Russia, the protection of intellectual property rights (IPR) is enforced on the basis of civil, administrative, criminal or customs legislation. The Civil Code sets up the level of compensation for IPR infringement and/or incurred damages for copyright, trademarks and geographical indications. The Code of Administrative Offenses concerns IPR infractions that violate public or private interest or rights, but do not meet the criteria of the Criminal Code. An administrative investigation may be initiated at the request of an IPR owner or by law enforcement authorities (police or customs) suspecting possible IPR infringement. Administrative cases are dealt with by general jurisdiction courts or state commercial courts that have jurisdiction over economic disputes. The IPR provisions of the Criminal Code apply to large-scale infringements of copyright, patent and trademark rights that cause gross damages, as defined by the Criminal Code.

In 2010, Russia made significant progress in improving the legislative environment and legal framework for IPR protection. Russia passed amendments to Part IV of the Civil Code for compliance with the Trade-Related Aspects of Intellectual Property (TRIPs) agreement, amended its Customs Code to include ex-officio authority for Russian Customs officials, and amended the Law on Circulation of Medicines to provide for 6 years of regulatory data protection upon WTO accession. Additionally, a law adopted in December 2011 laid the foundation for the establishment of a Russian IPR Court within Russia's system of commercial courts by February 2013.

Under a presidential initiative to liberalize Russian criminal legislation and decriminalize some "white-collar" crimes, Russia adopted a law in 2011 that sets a 100,000 ruble (approx. \$3,400) threshold for what constitutes a "large scale crime" of copyright infringement. While twice the previous amount, many in the copyright industries consider the new threshold reasonable. Concerns remain, however, over the efficacy of deterring piracy and counterfeiting through criminal penalties and the lack of Internet-related IPR enforcement (including ISP liability and regulations for takedown notices).

Copyright violations (films, videos, sound recordings, computer software) remain a serious problem. Legitimate DVD sales are on the rise, however, thanks in part to cheaper legitimate products, a growing consumer preference for high quality goods, and increased law enforcement action against pirates. Local representatives of the entertainment and software industries have also reported declining levels of piracy. Russian police continue to carry out end-user raids against businesses using pirated products. At times, police have used IPR enforcement as a tactic to elicit bribes or harass NGOs.

Russia has had a law providing for bankruptcy of enterprises since the early 1990s. Law enforcement officials, however, tend to view bankruptcy with suspicion and reported 500 cases of financial crime involving bankruptcy in 2011. Russia lacks legislation on individual (personal) bankruptcy or insolvency.

#### **Transparency of Regulatory System**

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Russia's legal system remains in a state of flux, with various parts of the government continuing to implement new regulations and decrees on a broad array of topics, including the tax code and requirements related to regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, are complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations inconsistently and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

Surveys have shown that many entrepreneurs complain about the complexity of the tax code and requirements of other regulatory and inspection bodies. Well-intentioned small and medium-sized enterprises (SMEs) often go out of their way to follow the law but are then penalized for making mistakes in documentation. They complain that the tax police make no distinction between overt tax-evaders and inexperienced SMEs who do not fully understand the bookkeeping requirements. Companies often have little recourse other than the courts to resolve tax disputes. While firms have successfully appealed to the courts, tax authorities are often slow to implement judicial decisions. Penalties for non-compliance include confiscation of property and freezing a company's bank accounts. A 2010 law greatly increased the criminal threshold of tax underpayment, forbade pre-trial detention for tax offences, and allowed first-time offenders to escape criminal liability for a tax offence by paying their arrears during the pre-trial investigation.

In consultation with foreign firms, Russia developed and adopted in 2011 a new Law on Transfer Pricing. While certain provisions of the new law, having been drafted in accordance with OECD principles, show promise, some experts warn that other provisions may lead to additional disputes with tax authorities. Ultimately, the new law's impact will depend on its implementation.

All draft laws that go through the Russian Duma are published on the Duma's website. Sometimes, but not consistently, ministries and other Russian government bodies also publish proposed legislation (including draft laws, government decrees and regulations) on their websites. While there is opportunity for public comment, the general perception is that this opportunity is limited and has minimal impact. Russian Ministries have become more active in seeking input from industry experts and business groups, including the Foreign Investment Advisory Council, when developing business-related laws and regulations. Nevertheless, observers complain that last-minute regulatory changes are often rushed through without consultation or explanation.

## **Efficient Capital Markets and Portfolio Investment**

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The Russian banking system remains relatively small, with RUB 4.9 trillion (\$164.7 billion) in aggregate capital as of November 1, 2011. Though Russia has roughly 1000 banks, the sector is dominated by state-owned banks, particularly Sberbank and VTB. The six largest banks in Russia are state-controlled, and the top five held 49.1% of all bank assets in Russia as of November 1, 2011. The successful implementation of the Deposit Insurance System in 2004 has proved a critical psychological boon to the banking sector, evidenced by growth in overall deposits. Despite measured progress, the Russian banking system is not yet efficiently performing its basic role of financial intermediary (i.e., taking deposits and lending to business and individuals). At the beginning of 2011, aggregate assets of the banking sector amounted to just 75% of GDP and aggregate capital was just 10% of GDP. Russia's banking sector is recovering from the economic crisis, with loan growth reaching 15% in 2010 and accelerating to 20% in the 12 months running to November 1, 2011. The share within Russia's banking sector of non-performing and troubled loans, which during the 2008-2009 financial crisis increased substantially, stabilized in 2010 at around 20% and began to slowly decline in the second half of 2011. Russia's two main stock exchanges – the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) – merged on December 19, 2011. The integration of their trading platforms, clearing systems, data centers and other operations should be completed by the end of 2012 and the MICEX-RTS bourse is eyeing an initial public offering (IPO) soon. Russian authorities and shareholders of MICEX and RTS believe the merged entity, MICEX-RTS, will become a global player. However, most large Russian companies choose to list their stock in London and elsewhere abroad in order to obtain higher valuations.

The Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process, as well as on a quarterly basis. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.



Russian financial authorities are trying to deepen the ruble-denominated domestic debt market to make it more attractive to foreign investors. In December, the Central Bank issued a resolution allowing, effective January 1, 2012, government bonds (aka OFZs) to be traded outside Russian exchanges (over the counter). Currently, foreign investors wanting to trade domestic bonds have to set up local brokerage and custody accounts, a lengthy process that discourages many investors from buying OFZs. Additionally, MICEX intends to sign an agreement with Euroclear Bank, the world's largest settlement system for securities that will allow foreigners to settle their Russian government bond transactions without the need for a local trading account.

Hostile takeovers are common in Russia among both foreign and local firms. Private companies' defenses to prevent hostile takeovers relate to all potential hostile takeovers, not just foreign ones.

Russia's financial market suffers from a shortage of private domestic institutional investors. For example, the life insurance market is miniscule, comprising only 3% of insurance premium payments. Private pension funds, held back by a public distrust of financial instruments and a lack of tax incentives, make up just 2% of financial assets in Russia, equal to 2% of GDP.

#### **Competition from State Owned Enterprises**

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Despite large-scale privatizations, the seven existing state corporations still play a large role in the Russian economy. (Note: State corporations are 100% owned by the Russian government and operate under special legislation. The Russian economy also features thousands of other companies owned in part or whole by the Russian government that operate under different legal arrangements, such as unitary enterprises and joint stock companies.) While private enterprises are technically allowed to compete with state corporations on the same terms and conditions, in practice, the playing field is tilted. State corporation holding structures and management arrangements (e.g., state representatives as board members) make it difficult for private enterprises to compete. Furthermore, specific legal constructions can result in preferential treatment of state corporations. For example, state corporations have no unified legal framework, being set up under different legislation than that which applies to other corporations; this case-by-case approach leaves much scope for discretion and lobbying by company insiders.

Corporate governance of state corporations is characterized by the "dual management" model. The Federal Agency for State Property Management (Rosimushchestvo) is authorized by the Russian government to exercise shareholder rights for federally-owned shares in companies and is responsible for the preparation and nomination of candidates at the annual meetings of shareholders. As a general rule, Rosimushchestvo nominates to a company's board of directors representatives of the most relevant government body, based on the sectoral characteristics of the business. The sectoral state body thus participates in managing the company through its representatives. In important companies that straddle the sectoral priorities of the government and its political interests, top government officials were traditionally nominated to the boards of directors. An April 2011 Presidential decree, however, ordered high-level government officials to step down from the boards of directors of state companies. Issues that hamper the efficient operations of state corporations include a lack of transparency, unclear responsibilities of boards of directors, misalignment of managers' incentives and company performance, inadequate control mechanisms on managers' total remuneration

or their use of assets transferred by the state to the state corporation, and reduced disclosure requirements.

As discussed above, the Russian government Privatization Plan aims to sell an estimated \$60 billion of government stakes in about 1000 companies, and an expansion of the Plan is currently being developed. In February 2011, the government successfully privatized a 10% minority share in VTB Bank. Overall, however, implementation of the Privatization Plan has slowed, in part due to poor market conditions and uncertain government enthusiasm to carry out the plan.

There are two sovereign wealth funds in Russia: the Reserve Fund (\$25 billion as of December 2011) and the National Wealth Fund (\$88 billion as of December 2011). Management of both funds' assets is executed by the Ministry of Finance in accordance with procedures and terms established by Government of the Russian Federation. The Central Bank of Russia acts as operational manager.

Reserve Fund assets can be used to purchase: foreign currencies (dollars, euro, pounds) that are then kept in the Federal Treasury's accounts with the Central Bank of Russia, which in turn pays interest on those deposits; and financial assets denominated in foreign currencies. The list of eligible financial asset classes is determined by Russian legislation. Ministry of Finance guidelines for Reserve Fund asset allocation are foreign (12 OECD countries) government debt instruments – 95%, international financial institutions' (a closed list of 9) debt instruments – 5%. The National Wealth Fund can be held in foreign currencies (dollars, euro, pounds) in the Federal Treasury's accounts with the Central Bank of Russia, which pays interest according to the bank account agreement. The National Wealth Fund can also be used to purchase financial assets denominated in Russian rubles and eligible foreign currencies. The Reserve Fund and National Wealth Fund are audited by Russia's Chamber of Accounts and the results are reported to the Federal Assembly. In 2009 and 2010, the Russian government tapped into both funds heavily to finance bail-out programs for major banks and industries during the global economic crisis. In 2011, the funds remained untouched, and in early 2012 the GOR plans to use a trillion rubles from the expected 2011 federal budget surplus to replenish the Reserve Fund to RUB1.8 trillion (\$58 billion).

## **Corporate Social Responsibility**

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While there is still little pressure from Russian consumers and shareholders, contact with peers, investors, and customers overseas has led Russian companies to focus more on their CSR reputations, and those of their brands. When seeking to acquire companies in Western countries or raise capital on international financial markets, Russian companies face international competition and scrutiny, including on CSR standards. Consequently, most large Russian companies currently have a CSR policy in place or are developing one. Russian firms' CSR policies often are now published on corporate Web sites and detailed in annual reports. These CSR policies and strategies, however, are still in an early stage relative to those of Western counterparts. The Russian government remains the most powerful stakeholder in the development of certain companies' CSR agendas, resulting in the expectation that these companies support local health, educational and social welfare systems as specified by the government.

The Federal Service for Financial Markets established a corporate governance code in 2002 and has endorsed an OECD White Paper on ways to improve practices in Russia.



International business associations such as the American Chamber of Commerce in Russia, the U.S.-Russia Business Council, the Association of European Businesses in Russia, and the International Business Leaders Forum, as well as Russian business associations, stress corporate governance as an important priority for their members and for Russian businesses overall. One association, the Russian Union of Industrialists and Entrepreneurs, developed a Social Charter of Russian Business in 2004 that over 200 Russian companies and organizations have since joined.

## **Political Violence**

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Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the Embassy is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Many have argued that the Russian Government's dismantlement of Yukos, in which American and other foreign investors held significant stakes, was undertaken in retaliation for the independent political activity of the company's head, Mikhail Khodorkovsky. While this case has raised questions about corruption, selective prosecution, and rule of law in Russia, the European Court of Human Rights ruled in September 2011 that the applicants had not offered sufficient evidence to prove that the Russian Government's actions against Yukos were politically motivated. Russia continues to struggle with an ongoing insurgency in Chechnya, Ingushetiya and Dagestan. These republics and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

Recent large-scale public protests suggest that the country has become more politically engaged and that civic action may become more commonplace. Following wide-spread allegations of fraud during December 2011 parliamentary elections, tens of thousands of people turned out on the streets of Moscow and across Russia to demand free elections and the resignation of Central Election Committee chairman Vladimir Churov. Such public protests will likely continue in the run-up to March 2012 Presidential elections.

## **Corruption**

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Corruption remains a major problem for businesses and investors in Russia. According to Transparency International's 2011 Corruption Perceptions Index, Russia ranked 143<sup>rd</sup> out of 183 nations surveyed. This represented an improvement from its 154<sup>th</sup> place showing in 2010, but was still far below its 2004 ranking (90<sup>th</sup> place).

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law. Moreover, the NGO Information Science for Democracy (INDEM) estimated in a 2009 report that bribes and corruption annually cost Russia the equivalent of one-third of its GDP. In November 2010, President Medvedev announced that Russia is losing up to a trillion rubles (approximately \$33 billion) annually due to corruption in its state procurement system.

The Government of Russia has repeatedly designated the fight against corruption and the enforcement of law as priorities. Russia is a signatory to the UN Convention against Corruption, the Council of Europe's Criminal Law Convention on Corruption, and the OECD Anti-Bribery Convention (which is pending ratification in the Duma). In May 2011,

Russia adopted new legislation that, among other steps, criminalizes transnational bribery and substantially increases penalties for domestic bribery. In December 2011, Russia passed additional anti-corruption legislation strengthening penalties for state servants who fail to avoid conflicts of interest. Even so, Transparency International-Russia, a Russian affiliate of the international network, has reported that the enforcement of most anti-corruption legislation to date is weak or non-existent. In recent years, there appears to be a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, but real numbers are difficult to obtain and high-ranking officials are rarely prosecuted. And while anti-corruption measures have been repeatedly strengthened, most monitoring organizations register an increase rather than a decrease in corruption. It is important for U.S. companies, irrespective of size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in Russia should take the time to become familiar with the relevant anticorruption laws of both Russia and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act (FCPA): In 1977, the United States enacted the FCPA, which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: [www.justice.gov/criminal/fraud/fcpa/docs/lay-persons-guide.pdf](http://www.justice.gov/criminal/fraud/fcpa/docs/lay-persons-guide.pdf). In 2011, the Federal Anti-Monopoly Service (FAS) fined a Danish pharmaceutical importer for terminating a local distributor. The importer claimed that FCPA due diligence had yielded evidence of corruption on the part of the local distributor while the distributor claimed that the importer was using the FCPA as a shield to engage in anti-competitive practices. FAS largely accepted the position of the local distributor and this case has caused concern on the part of some foreign companies that legitimate attempts to do FCPA due diligence will be misinterpreted by Russian authorities as illegal attempts to limit competition. As of late 2011, FAS indicated that it was considering revising its policy to address this problem and to give companies more discretion to terminate local distributors suspected of corruption. However, as of the time of writing, the new policy had not yet been adopted.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at [www.justice.gov/criminal/fraud/fcpa](http://www.justice.gov/criminal/fraud/fcpa). Although the Department of Commerce has no enforcement role with respect to the

FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel's website, at [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html). More general information on the FCPA is available at the Websites listed below.

**Other Instruments:** It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

**OECD Anti-Bribery Convention:** The OECD Anti-Bribery Convention entered into force in February 1999. There are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Anti-Bribery Convention through the FCPA. In 2011, Russia passed anti-corruption legislation that clearly criminalized foreign bribery and is expected to formally accede to the Anti-Bribery Convention in early 2012.

**Local Laws:** U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

**Assistance for U.S. Businesses:** The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of a company's overarching compliance program when choosing business partners or agents overseas. The U.S. Commercial Service can be reached directly through its offices in major U.S. and foreign cities, or through its Website at [www.trade.gov/cs](http://www.trade.gov/cs).

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at [tcc.export.gov/Report\\_a\\_Barrier/index.asp](http://tcc.export.gov/Report_a_Barrier/index.asp).

#### *Anti-Corruption Resources*

Some useful resources regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: <http://www.justice.gov/criminal/fraud/fcpa>.

- Information about the OECD Anti-Bribery Convention including links to national implementing legislation and country monitoring reports is available at: [http://www.oecd.org/departement/0,3355,en\\_2649\\_34859\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html).

- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html).

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 183 countries and territories around the world. The CPI is available at: <http://cpi.transparency.org/cpi2011/>. TI also publishes an annual Global Corruption Report which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>. Transparency International-Russia also posts corruption-related research materials and findings on the following sites, all specific to Russia: [www.transparency.org.ru/INTER/index.asp](http://www.transparency.org.ru/INTER/index.asp) and [www.askjournal.ru](http://www.askjournal.ru).

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 economies, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See [http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp). World Bank Business Environment and Enterprise Performance Surveys may also be of interest.

- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See [http://www3.weforum.org/docs/WEF\\_GlobalEnablingTrade\\_Report\\_2010.pdf](http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2010.pdf).

- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.

- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://www.globalintegrity.org/report>.

## **Bilateral Investment Agreements**

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Russia has concluded bilateral investment treaties (BITs) with 70 countries, and 54 of them are in force. The United States and Russia have not concluded a BIT, although both sides have expressed interest in discussing such an agreement. The United States and Russia do not have a bilateral taxation treaty, and there has been no discussion of negotiating one. There is some concern that taxation requirements have sometimes been used in Russia as a way to "raid" or illegally take possession of foreign companies, particularly small and medium enterprises.

## **OPIC and Other Investment Insurance Programs**

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In an agreement ratified in 1992, the U.S. Overseas Private Investment Corporation (OPIC) was authorized to provide loans, loan guarantees ("financing"), and investment insurance against political risks to U.S. companies investing in Russia. OPIC's political risk insurance and financing help U.S. companies of all sizes invest in Russia. OPIC insures against three political risks: expropriation; political violence; and currency inconvertibility. OPIC recently announced that political risk insurance now covers private equity fund investments. To meet the demands of larger projects in Russia and worldwide, OPIC can insure up to \$250 million per project and up to \$300 million for projects in the oil and gas sector with offshore, hard currency revenues. Projects in the oil and gas sector with offshore, hard currency revenues may be approved for an exposure limit up to \$400 million if the project receives a credit evaluation ("shadow rating") of investment grade or higher. The individual per project exposure limit for financing is \$250 million. The maximum combined (insurance and financing) exposure limit to OPIC on a single project is \$400 million. OPIC has no minimum investment size requirements. OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds. Detailed information about OPIC's programs can be accessed at [www.opic.gov](http://www.opic.gov). Russia is a member of the Multilateral Investment Guarantee Agency.

## **Labor**

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The Russian labor market remains fragmented, characterized by limited labor mobility across regions and consequent wage and employment differentials. Earnings inequalities are substantial, enforcement of labor standards is relatively weak, and collective bargaining is underdeveloped.

The rate of actual unemployment (calculated according to ILO methodology) in 2011 declined from 7.8% in January to 6.4% in October. Average unemployment in urban districts (5.5%) is much lower than in rural districts (9%). Two regions in the North Caucasus have the highest unemployment rates in the country: Ingushetia (48.6%) and Chechnya (35.8%). In stark contrast, the unemployment rate is only 1.1% in Moscow and 1.6% in St. Petersburg.

Employers complain about the low quality of applicants' skills and labor shortages outside of urban centers. This is due in part to weak linkages between the education system and the labor market. In addition, the economy suffers from a general shortage of highly skilled labor. Employers in regions outside Moscow and St. Petersburg contend with a dearth of available workers. Businesses in these areas face increasing labor costs



as competition over a limited pool of workers intensifies. On the other hand, a large number of inefficient enterprises with high vacancy levels offer workers unattractive, uncompetitive salaries and benefits.

The government registered only two strikes in 2011. Independent commentators, however, noted 194 protests during the first nine months of 2011, including 67 that involved the complete or partial cessation of work. The majority of labor disputes occurred in the manufacturing sector. The primary causes of labor disputes were wage arrears, company reorganization or closure, low pay, and layoffs. Approximately 45% of Russia's workforce is unionized. The government generally adheres to ILO conventions protecting worker rights but often fails to enforce them.

The 2002 Labor Code governs labor standards in Russia. When adopted, it was meant to diminish the role of the government in setting and enforcing labor standards, with trade unions playing a role in representing workers' interests. Revisions to the Labor Code since 2002 have included new procedures for investigating industrial accidents and the requirement that businesses employing more than 50 workers establish a work safety division and create a position for a "work safety specialist." The enforcement of worker safety rules continues to be a major issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety standards.

#### **Foreign-Trade Zones/Free Ports**

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Russia has 24 Special Economic Zones (SEZs), which fall in one of four categories: industrial and production zones; technology and innovation zones; tourist and recreation zones; and port zones. Enterprises operating within SEZs enjoy a range of benefits that the Ministry of Economic Development (MED) – which manages the SEZ program – estimates can save investors up to 30% of the cost of doing business. Specifically, investors enjoy streamlined administrative requirements and procedures, a more favorable customs regime (including the waiver of import duties and refunds of the value-added-tax), and reduced tax rates on income, property, land, and transport. SEZ investors also receive cut rates on infrastructure expenses, including facilities and utilities costs. Such benefits are extended for an agreed introductory period, often lasting five years.

The SEZs are developing gradually, with the majority of investments still listed as "planned." Detailed information about the benefits and results of Russia's SEZs can be found at the MED's SEZ website:  
<http://www.economy.gov.ru/minec/activity/sections/sez/main/>.

Independent of the SEZs, in 2010 President Medvedev launched an initiative to establish the Skolkovo Innovation Center in the Moscow suburbs to promote investment in high-technology startup businesses, research, and commercialization of technological innovation. Inspired by the model of Silicon Valley, Skolkovo "resident companies" can receive a broad range of benefits, including complete exemption from profit tax, value-added tax, property taxes, and import duties, and partial exemption from social fund payments. Applicants for residency are evaluated and selected by an international admission board. According to the Skolkovo Foundation, over 200 companies have been selected as residents thus far.

Table 1 shows flows of foreign investment by country for the first nine months of 2011, compared to the same period in 2010. Total foreign investment increased sharply in 2011, rising by 182% year-on-year. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). FDI flows into Russia also increased in 2011, albeit less dramatically than total investment. This year, the largest share of foreign investment came from Switzerland. FDI from the Netherlands and Cyprus is consistently high because most FDI coming from these countries is either returning or reinvested Russian capital through subsidiaries or off-shore vehicles. The United States was the thirteenth largest investor in Russia during this period, with \$1.3 billion in total investment, \$88.2 million of which was FDI. (Note: The data in the tables below are from the Russian State Statistical Service (RosStat) and differ from data maintained by the Central Bank of Russia and the U.S. Department of Commerce.)

**Table 1: Top Investors - By Year (in USD million)**

Country	Jan-Sep 2011		Jan-Sep 2010	
	Total	FDI	Total	FDI
Switzerland	69,115	70.1	3,398	64.5
Netherlands	13,218	3,023	7,507	943
Cyprus	12,972	2,758	5,635	1,912
Germany	8,169	1,480	7,520	1,095
UK	6,336	176	4,240	430
All Others	23,976	4,228	19,189	3,751
<b>Total</b>	<b>133,784</b>	<b>11,736</b>	<b>47,488</b>	<b>8,196</b>

The numbers in Table 2 represent the accumulated stock of total foreign investment by country, including FDI, portfolio, and "other" investment as of September 30, 2011, compared to the amount accumulated a year prior. As of September 30, 2011, the United States had the eleventh largest stock of investment in Russia at \$6.95 billion, \$3.27 billion of which was FDI. Source: RosStat.

**Table 2: Top Investors - Accumulated Basis (in USD million)**

Country	As of Sep 30, 2011		As of Sep 30, 2010	
	Total	FDI	Total	FDI
Cyprus	69,057	47,290	57,600	40,377
Netherlands	46,295	23,328	44,184	22,790

Luxembourg	35,051	643	32,228	652
Germany	29,779	11,386	22,656	8,332
China	27,356	1,238	10,543	931
All Others	115,650	42,529	98,743	37,074
<b>Total</b>	<b>323,178</b>	<b>126,415</b>	<b>265,954</b>	<b>110,156</b>

Table 3 shows total foreign investment by region over the first nine months of 2011, compared to the same period in 2010. Moscow continues to attract the largest volume of investments (63.4% of total foreign investment), mainly due to the concentration of companies' headquarters and consumers with high purchasing power. Source: RosStat. (Note: includes direct, portfolio and "other" investment.)

**Table 3 – Foreign Investment – Top Regions (in USD million)**

	Jan-Sep 2011			Jan-Sep 2010		
	Amount	%	Rank	Amount	%	Rank
Moscow (city)	84,878	63.4%	1	15,816	33.3%	1
Tyumen Region	9,821	7.3%	2	701	1.5%	11
Sakhalin Region	6,570	4.9%	3	3,611	7.6%	4
St. Petersburg	3,972	3.0%	4	3,723	7.8%	3
Belgorod Region	3,171	2.4%	5	24.7	0.1%	58
Others	25,371	19.0%		23,612	49.7%	
<b>Total</b>	<b>133,784</b>	<b>100%</b>		<b>47,488</b>	<b>100.0%</b>	

Table 4 shows investment by sector over the first nine months of 2011, compared to the same period in 2010. Total investment rose in each of the top ten sectors, with the largest jump occurring in the financial sector. Foreign investment into the financial sector rose from 3.7% to nearly half of all foreign investment in Russia. The vast majority of that investment, however, was made up of a number of large short-term loans rather than FDI. Source: RosStat.

**Table 4: Foreign Investment: Top Sectors (in USD million)**

	Jan-Sep 2011		Jan-Sep 2010	
	%	Amount	%	Amount
Finance	49.1%	65,711	3.7%	1,764
Extraction of Fuel	9.6%	12,850	17.1%	8,115
Wholesale and Retail Trade	9.2%	12,363	18.3%	8,688
Production of coke and oil products	7.5%	9,997	10.5%	4,980



Metallurgy	4.4%	5,902	10.4%	4,950
Transport and Communications	4.1%	5,494	8.3%	3,952
Real Estate and Related Services	3.6%	4,782	8.1%	3,843
Chemical Industry	2.7%	3,636	3.5%	1,679
Food Industry	1.5%	1,964	3.9%	1,866
Production of vehicles	1.4%	1,845	3.3%	1,569
All Others	6.9%	9,240	12.8%	6,082
<b>Total</b>	<b>100.0%</b>	<b>133,784</b>	<b>100.0%</b>	<b>47,488</b>

Table 5 shows stocks of Russian FDI abroad as of September 30, 2011 and September 30, 2010, as well as flows of Russian FDI abroad for the first nine months of 2011, compared to the same period in 2010. Russian FDI stocks abroad increased by 29.9% in the year ending on September 30, 2011. Flows of Russian FDI abroad were also higher in 2011, nearly double in the first nine months of 2011 what they were in the same period in 2010. Source: RosStat.

**Table 5: Top Destinations of Russian FDI - By Year (in USD million)**

<b>Country</b>	<b>as of Sep 30, 2011</b>	<b>Jan-Sep 2011</b>	<b>as of Sep 30, 2010</b>	<b>Jan-Sep 2010</b>
	<b>Stock</b>	<b>Flow</b>	<b>Stock</b>	<b>Flow</b>
Netherlands	25,067	8,427	16,862	4,017
Cyprus	14,280	842	13,250	820
United States	6,663	439	5,656	158
Switzerland	2,814	328	2,001	N/A
Belarus	2,685	629	2,642	0.3
All Others	12,724	2,035	9,038	385
<b>Total</b>	<b>64,231</b>	<b>12,072</b>	<b>49,448</b>	<b>6,009</b>

#### Web Resources

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## Chapter 7: Trade and Project Financing

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### How Do I Get Paid (Methods of Payment)

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Payment methods and terms vary depending upon the U.S. company's business model and relationship with its Russian trading partner. For new-to-market companies, requesting advance payment for goods and services from a Russian customer may be a prudent course to follow until both parties establish a positive record of payment. Once a U.S. firm has established a strong relationship with a Russian trading partner, it may consider extending short- and eventually longer term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and establishment of successful payments.

For some large transactions, advance payment from a Russian buyer may be impractical. In such cases, financing may be provided by a bank, export credit agency or venture fund. Exporters' risk can be minimized with a bank or insurance guarantee from a Russian bank that would be acceptable to a U.S. bank. In leasing deals, exporters should insist on an upfront payment of three to four months upon delivery as a way to mitigate some of the risk.

Leasing has become increasingly attractive to both lessees and lessors because of its economic effectiveness, flexibility and accessibility in comparison to bank finance. Most large Russian banks have leasing programs that they can offer their clients in such cases, and there is a growing list of foreign leasing companies operating in Russia that can offer Russian clients leasing terms for imported equipment. Aviation, energy, mining, construction, transportation, pharmaceutical, forestry and fishing industries equipment which may be too expensive for Russian customers to purchase, are often leased.

### How Does the Banking System Operate

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Despite improvement over the last several years, the Russian banking system is still evolving in terms of being able to meet the capital and credit needs of a rapidly growing and dynamic market economy. However, while the banking services available from Russian banks is still limited compared to what is available in the U.S., a company doing business in Russia can access an expanding range of basic services offered by a larger commercial bank.

The Russian banking sector is highly segmented, with the top five banks controlling 48% of assets. There are over 1000 banks in Russia; 80 are 100% foreign-owned. The number of small banks is gradually decreasing due to insolvency and consolidation. The top two banks, Sberbank (controlled by the Central Bank) and VTB (controlled by the government), together own about one-third of the banking sector assets in Russia. The Russian government has approved a list of 11 state-controlled companies whose stakes are to be privatized in 2011-2013, which includes Sberbank and VTB. This mass privatization began with the sale of a 10% stake in VTB for \$3.3 billion in February 2011.

## **Foreign-Exchange Controls**

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Currency control legislation has been liberalized considerably in the last few years. For payments related to the import of goods, there are no significant restrictions. However, the bank of the Russian importer is obliged to ensure compliance of payments with the currency regulations. Therefore, the Russian importer and its bank set up a “transaction passport” for each contract. The foreign exporter is not directly involved, but may be affected due to the need for the Russian importer to obtain documents and information from the exporter.

For more information, see Conversion and Transfer Policies in the Investment Climate Statement (Chapter 6).

## **U.S. Banks and Local Correspondent Banks**

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Most foreign businesses prefer to deal with foreign-owned banks, as they are more stable, more experienced and generally offer higher levels of service. Until recently, these banks concentrated their activity in highly profitable financial markets and were not interested in commercial banking. However, demand led them to diversify their services to include foreign trade transactions and commercial banking. Many foreign banks now provide regular commercial services, including accounts, transfers, currency exchange, credit, documentary operations, letters of credit and trade financing. Some of these banks will establish individual accounts for non-residents and employees of their institutional clientele.

Unfortunately, the lack of nationwide branches makes these services largely unavailable to customers operating outside the major metropolitan centers of Moscow and St. Petersburg. U.S. banks have increased their share of the Russian banking market. Citibank has been present in the Russian market for many years, but has recently increased its presence via aggressive expansion into retail banking. GE Money Bank has also made inroads in the sector.

## **State-Owned Banks**

Two state-controlled banks, Sberbank and Vneshtorgbank (VTB), continue to dominate the corporate and retail banking sectors in Russia. The state also controls a number of smaller banks. The Russian government has repeatedly urged Russia's state-controlled banks to modernize in order to play a more active role in the economy. These public criticisms aside, state banks have been the primary beneficiaries of the government's efforts to supply short- and long-term liquidity to the economy to mitigate the economic crisis.

## Russian Private Commercial Banks

Other viable Russian banks include emerging service-oriented banks and large banks owned by financial-industrial groups. They are competitive and likely to remain customer oriented and to find creative solutions to Russia's business complexities. A potential weakness is their limited capacity to provide services comparable to those of large international banks. Furthermore, they lack nationwide coverage.

Russia's 10 largest commercial banks are:

- Sberbank
- VTB
- Gazprombank
- Rosselkhozbank
- Bank of Moscow
- Alfa-Bank
- UniCredit Bank
- ZAO Raiffeisen Bank
- VTB24
- Rosbank

## **Project Financing**

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The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets.

Ex-Im Bank offers guarantees and direct loans to finance the construction and operation of projects through structured finance transactions, including limited recourse project finance in which project cash flows are used for repayment of the financing.

Since Ex-Im Bank began lending to support U.S. exports in Russia, total authorizations have been \$5 billion (total exposure in Russia as of FY10 is \$439 million). Today, Ex-Im Bank's outstanding portfolio in Russia includes transactions in such sectors as oil & gas, agriculture, transportation, and financial services. In FY2010 (from October 2009 to September 2010), Ex-Im Bank authorized approximately \$96 million worth of exports to Russia, up 35% over the same period last year.

As of fiscal year 2010, the Bank reported a second consecutive record-breaking year of \$24.5 billion in export financing, up 70% from FY 2008. These transactions supported \$34.4 billion worth of American exports and an estimated 227,000 American jobs.

For additional information on the U.S. Ex-Im Bank's financing options and its projects in Russia, please contact the Bank directly.

Brian Sant Angelo  
Global Business Development  
Export-Import Bank of the United States  
Phone: +1 (202) 565 3484

Fax: +1 (202) 565 3677

The European Bank for Reconstruction and Development (EBRD), whose largest shareholder is the US Government, offers a full range of financial services to U.S. investors in Russia. Using its AAA credit rating, the EBRD can provide debt, equity, quasi-equity, syndications, and trade finance in both local and foreign currency at competitive commercial rates and with longer tenors than is usually supplied by commercial lenders. The EBRD's lending priorities are for private sector-led investment, but sovereign lending is also a feature of the bank, particularly for water, transport and energy needs at the municipal level. For sovereign loans, the EBRD requires open, competitive tenders that can offer an opportunity to supply U.S. goods and services.

#### **Web Resources**

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

European Bank for Reconstruction and Development:  
<http://www.ebrd.com/pages/country/russia.shtml>

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## Chapter 8: Business Travel

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### Business Customs

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The Russian market is extremely competitive. Salesmanship is a key factor and U.S. firms should be prepared to describe the competitive advantages and factors that distinguish them in the marketplace.

Establishing a personal relationship with business partners is a critical factor in the successful negotiation of major projects, government procurement or in developing long-term business relationships. Scheduling meetings with potential Russian business partners can be challenging. It may take weeks to get a response to an email, fax or a telephone request for a meeting. Once contact has been established, patience may still be required to confirm a date and time to meet. U.S. business visitors to Moscow or St. Petersburg are advised to factor traffic into scheduling.

Russian language ability is a must and an interpreter should be hired if necessary. An increasing number of Russian businesspeople speak a courtesy level of English; however, many prefer to conduct business discussions in Russian. The U.S. Commercial Service can arrange for the services of qualified interpreters.

Business cards are important and are exchanged freely. Cards should have regular contact information and an email address and website if available. Most foreign businesspeople in Russia carry bilingual English/Russian business cards (one side English, the other Russian).

Promotional materials in Russian are an important tool for creating interest in a company's products in the Russian market. It is very important that the translation be accurate and of high quality. Many companies interested in the Russian market have used on-line translation services for translation of their promotional material, only to learn that the translation was inferior and did not serve the intended purpose. For the best results, it is highly recommended that professional translation services be used. The Commercial Service can recommend fully qualified translators upon request.

The State Department issues Travel Alerts and Warnings when warranted by local conditions. If you are traveling to Russia, please refer to the Country-Specific Information (CSI) for the Russian Federation at: [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1006.html#page](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#page), and consider enrolling your travel with the Department of State in order to receive e-mail updates. The CSI is updated regularly and contains key information for travelers regarding security and safety, health, visa and immigration regulations and general travel information about the Russian Federation.

**Travel Tips**

Hotels: While world-class tourist and business facilities exist in Moscow and St. Petersburg, they are under-developed in much of Russia, and many goods and services taken for granted in other countries are not yet available. Moscow, St. Petersburg, Novgorod, Nizhniy Novgorod, Nizhnevartovsk, Perm, Samara, Yekaterinburg, Perm, Sochi, Yuzhno Sakhalinsk and Vladivostok, among other cities, have Western-style hotels, though often priced at a premium compared with other major cities of the world. Outside major cities, traditional Russian hotels offer modest accommodations at modest rates. Some regional hotels raise rates for foreign guests. It is possible to find well-appointed hotels in some small towns; it is equally possible to be temporarily without water or electricity when visiting some regions of Russia.

Clothing: Russian businessmen and women predominately wear business suits. For women, dresses, skirts or pants are acceptable. Winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities; Moscow and St. Petersburg can be quite cold as well, with temperatures in the teens F. not uncommon. Winter clothes may be needed as early as October or as late as April. During the winter months people dress for warmth. Travelers are advised to bring boots or other protective footwear, as streets and sidewalks in winter are frequently slushy or icy. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels and offices.

Food: A meal in a hotel or top restaurant in Moscow and St. Petersburg can be very expensive by U.S. standards. Nevertheless, in these cities there is an increasing variety of less expensive restaurants, including pizza, and fast food establishments. Russian food can be bland to American tastes, while many visitors find Caucasian, Georgian and Uzbek cuisines to be interesting contrasts. Regardless of the city or hotel, bottled water served with no ice is recommended.

Money: Russia is a predominately cash economy with the Russian ruble as the only legal tender for local transactions. It is illegal to pay for goods and services in U.S. dollars or other foreign currency. Old, worn, or marked bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchange offices are available in most shopping areas and provide reliable service. Credit cards are now accepted at many modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but frequently only in major stores. Traveler checks are not widely accepted in Russia. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in Moscow and St. Petersburg may be able to suggest locations for cashing traveler's checks or obtaining cash advances on credit cards.

Rubles (and dollars, if needed) may be obtained from bank ATMs that are connected to the PLUS and CIRRUS systems using U.S. debit/credit cards. It is not recommended to use credit/debit cards for small purchases or in standalone ATMs (those not physically located at a bank). ATMs are common in the larger cities, although there have been some instances of theft from card numbers used in these systems. Western Union has many agents in Moscow, and other cities in Russia, which disburse money wired from the United States.

Mail Services: The following companies, with offices in Moscow, offer priority mail services between the United States and Russia:

- DHL
- Federal Express
- Pony Express
- TNT
- UPS

### **Personal Security**

Incidents of unprovoked, violent harassment against racial and ethnic minorities regularly occur throughout the Russian Federation. The U.S. Embassy and Consulates General continue to receive reports of American citizens, often members of minority groups, having been victimized in violent attacks by “skinheads” or other extremists. Travelers are urged to exercise caution in areas frequented by such individuals and wherever large crowds have gathered. Americans most at risk are those of African, South Asian or East Asian descent, or those who, because of their complexion, are perceived to be from the Caucasus region or the Middle East. These Americans are also at risk of harassment by police authorities.

Visitors to Russia need to be alert to their surroundings. In large cities, they need to take the same precautions against assault, robbery, or pickpockets that they would take in any large U.S. city:

- keep billfolds in inner front pockets,
- carry purses tucked securely under arms,
- wear the shoulder strap of cameras or bags across the chest,
- walk away from the curb and carry purses and other bags away from the street.

The most vulnerable areas include underground walkways and the subway, overnight trains, train stations, airports, markets, tourist attractions, and restaurants.

Groups of children and adolescents have been aggressive in some cities, swarming victims, or assaulting and knocking them down. They frequently target persons who are perceived as vulnerable, especially elderly tourists or persons traveling alone. Some victims report that the attackers use knives. Persons carrying valuables in backpacks, in back pockets of pants and in coat pockets are especially vulnerable to pickpockets. Recently, groups of older teen males have also swarmed Metro passengers and forcibly stolen personal belongings.

Foreigners who have been drinking alcohol are especially vulnerable to assault and robbery in or around nightclubs or bars, or on their way home. Some travelers have been drugged at bars, while others have taken strangers back to their lodgings, where



they were drugged, robbed and/or assaulted. The Russian media report that the drug GHB is reportedly gaining popularity in local nightclubs, under the names butyrate or oxybutyrate. This drug can also cause amnesia, loss of consciousness, extreme intoxication when mixed with alcohol, and death. The drug, typically a capful of liquid mixed with a beverage, gained notoriety in the United States after incidents of date rape and death.

In many cases, stolen credit cards are used immediately. Victims of credit card or ATM card theft should report the theft to the credit card company or issuing bank immediately. Travelers are advised to be vigilant in bus and train stations and on public transport. Travelers have generally found it safer to travel in groups organized by reputable tour agencies. Visitors are strongly discouraged from using unmarked, "gypsy" taxis. Passengers have been victims of robbery, kidnapping, extortion and theft. Criminals using these taxis to rob passengers often wait outside bars or restaurants to find passengers who have been drinking and therefore more susceptible to robbery. Robberies may also occur in taxis shared with strangers. Although there are few registered taxi services in Russia, travelers should always use authorized services when arriving at major airports.

A common street scam in Russia is the "turkey drop" in which an individual "accidentally" drops money on the ground in front of an intended victim, while an accomplice either waits for the money to be picked up, or picks up the money him/herself and offers to split it with the pedestrian. The individual who dropped the currency then returns, aggressively accusing both of stealing the money. This confrontation generally results in the pedestrian's money being stolen. Avoidance is the best defense. Do not get trapped into picking up the money, and walk quickly away from the scene.

To avoid highway crime, travelers should try not to drive at night, especially when alone, or sleep in vehicles along the road. Travelers should, under no circumstances, pick up hitchhikers; they not only pose a threat to physical safety, but also put the driver in danger of being arrested for unwittingly transporting narcotics.

Extortion and corruption are common in the business environment. Threats of violence and acts of violence are commonly resorted to in business disputes. Organized criminal groups and sometimes local police target foreign businesses in many cities and have been known to demand protection money. Many Western firms hire security services that have improved their overall security, although this is no guarantee. Small businesses are particularly vulnerable. American citizens are encouraged to report all extortion attempts to the Russian authorities and to inform consular officials at the U.S. Embassy or nearest Consulate General.

Travelers should be aware that certain activities that would be normal business activities in the United States and other countries are either illegal under the Russian legal code or are considered suspect by the Federal Security Service (FSB). U.S. citizens should be particularly aware of potential risks involved in any commercial activity with the Russian military-industrial complex, including research institutes, design bureaus, production facilities or other high technology, government-related institutions. Any misunderstanding or dispute in such transactions can attract the involvement of the security services and lead to investigation or prosecution for espionage. Rules governing the treatment of information remain poorly defined.

It is not uncommon for foreigners in general to become victims of harassment, mistreatment and extortion by law enforcement and other officials. Police do not need to show probable cause in order to stop, question or detain individuals. If stopped, travelers should try to obtain, if safe to do so, the officer's name, badge number, and patrol car number, and note where the stop happened, as this information assists local officials in identifying the perpetrators in cases where the incident is not for legitimate purposes. Authorities are concerned about these incidents and have cooperated in investigating such cases. Travelers should report crimes to the U.S. Embassy or the nearest Consulate General.

**Consular Services:** All Americans who travel to Russia are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates, listed below. In addition to providing updated travel and security information, registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency.

**U.S. Embassy - Moscow**

8 Bolshoy Deviatinsky Pereulok, Moscow 121099  
American Citizen Services, Consular Section  
21 Novinskiy Blvd, Moscow 123242  
Tel: 7 (495) 728-5577, Fax: 7 (495) 728-5084  
After-hours (emergencies): Tel: 7 (495) 728-5025/728-5000

**U.S. Consulate General - St. Petersburg**

15 Furshtadskaya Street, St. Petersburg 191028  
Tel: 7 (812) 331-2600, Fax: 7 (812) 331-2852  
After-hours emergencies: Tel: 7 (812) 271-6455 or 939-5794

**U.S. Consulate General - Vladivostok**

32 Pushkinskaya Street, Vladivostok 690001  
Tel: 7 (4232) 300-070, Fax: 7 (4232) 499-371/2  
(4232) 300-091 (visa section)  
After-hours emergencies: Tel: 7 (4232) 710-067

**U.S. Consulate General – Yekaterinburg**

15 Gogol Street, 4th Floor, Yekaterinburg 620151  
Tel: 7 (343) 379-3001/379-4619/91, Fax: 7 (343) 379-4515

**Visa Requirements**

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The Russian government requires visas and residence permits for businessmen and investors. Work and residence permits must be renewed periodically – a cumbersome process that almost always requires local legal counsel. Russia's visa system is very complicated, and visitors should consult the State Department's Country-Specific Information (CSI) for the Russian Federation for up-to-date information on Russian entry and exit requirements. The CSI can be referenced at:  
[http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1006.html#page](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#page).

U.S. companies that require travel of foreign businesspersons or workers to the United States should be aware that Russian citizens require visas to enter the United States. A visa is issued by a U.S. Embassy or Consulate and entitles the holder to travel to the United States and apply for admission; it does not guarantee entry. An immigration

inspector at the port of entry determines the visa holder's eligibility for admission into the United States. The Embassy and Consulates process visa applications in an expeditious manner, but it is important to apply as early as possible. Further information on U.S. visas is available at the following links:

State Department Visa Website: <http://travel.state.gov/visa/>

U.S. Embassy Moscow Visa Information: <http://moscow.usembassy.gov/visas.html>

## Telecommunications

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Internet Accessibility: The level of penetration and Internet awareness continues to increase in Russia. Recent figures show that about 50% of the Russian population uses the Internet on a regular basis. The largest players in Russian language e-mail services and search engines are Mail.ru, Rambler and Yandex. Internet is widely available in the major cities.

Wi-Fi is increasingly available in Russia. Currently, there are about 6,000 hot spots active in Russia that are primarily located in Moscow, St. Petersburg and other large cities. Launching WIMAX services combined with Wi-Fi will be the driver for further proliferation of wireless Internet access.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market, holding 80% of the market space. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom (Beeline) and Megafon.

Long distance telephone calls can usually be made from any place in the city using IP phone services, SKYPE, if you have an available Internet connection. One can also buy a mobile SIM card for intercity or international phone calls at a special rate.

A rudimentary knowledge of Russian is extremely helpful for those placing a call through local telephone and telegraph offices. Moscow is eight hours ahead of Washington, D.C. To reach Moscow by phone from the United States you need to access an international line, and then dial Russia Country Code "7," Moscow City Code "495" followed by the phone number. Some new numbers use "499" for Moscow, and calling cell phones in Russia often require a different dialing string.

## Transportation

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The U.S. Federal Aviation Administration (FAA) has assessed the Russia government as being in compliance with the ICAO international aviation safety standards for oversight of Russia air carriers operations. See <http://www.faa.gov/about/initiatives/iasa/> for more information.

Travelers should be aware some local airlines may not have advance reservation systems and sell tickets for cash at the airport. However, due to consolidation of Russian airlines and the growing popularity of Internet-based sales, advance on-line ticket purchases are becoming more common. Flights often are canceled if more than 30% of the seats remain unsold. Travelers should have their passport with them at all

times. Air travel within western Russia is occasionally erratic but generally stays on schedule; the quality of service continues to improve. Flights within the Russian Far East are sometimes delayed or cancelled in winter months due to snow or fog. International Russian carriers such as Aeroflot and Transaero usually use western equipment and meet higher standards than domestic carriers.

Moscow has three major airports (Sheremetyevo, Domodedovo and Vnukovo); a fourth airport, Bykovo, deals primarily with cargo and emergency flights. International flights generally enter Moscow through Sheremetyevo and Domodedovo. Most international flights arrive in Sheremetyevo-2 (renamed SVO-F in December 2009) while Sheremetyevo-1 (renamed SVO-B in March 2010) handles most domestic traffic. With the opening of terminal C (SVO-C) in March 2007 and the opening of terminal D (SVO-D) in November 2009, some international and domestic travel has been diverted to these facilities. Terminal E (SVO-E) was completed in April 2010 and also receives international flights. In July 2010, terminals F, D, and E were connected to allow for more convenient passenger movements throughout the terminals.

Travelers may continue to other Russian cities from Sheremetyevo, Vnukovo or Domodedovo airports. However, travel time between airports or to the city center can take as much as three hours, and ample time must be allowed for passport control, customs clearance and baggage retrieval. The introduction of Aeroexpress trains that provide a high-speed direct connection from each of the airports to the city center (35-45 min travel time) have greatly alleviated this problem over the recent years. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

Train travel in Russia is generally reliable and convenient as stations are located in the city center. From St. Petersburg to Moscow, travelers often ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pick-pocketing have been reported. For quicker train connection between Moscow and St. Petersburg during daytime, travelers can consider taking the high-speed SAPSAN train that reaches destination only within 4 hours. Inclement weather, erratic maintenance and a culture of aggressive driving make road conditions throughout Russia highly variable. Drivers and pedestrians should exercise extreme caution to avoid accidents. Traffic police sometimes stop motorists to levy cash "fines," and criminals occasionally prey on travelers, especially in isolated areas.

In Moscow and St. Petersburg, the metro (subway) can be an efficient and inexpensive means of transportation. However, for non-Russian speakers, it can be difficult unless prepared in advance. Be sure to carry a metro map with you and learning Cyrillic alphabet is helpful. Marked taxis are increasingly present in Moscow and St. Petersburg. Short-term business travelers may wish to consider renting a car and driver for extensive excursions, or hire taxis through their hotels for shorter jaunts. Car rentals are another option that has opened up in the last couple of years, although driving in Russia can be difficult for the uninitiated.

Though many better-educated Russians in major cities speak English, you should be prepared to conduct business in Russian. Many first-time visitors are surprised by how

difficult it can be to find anyone who speaks English. U.S. businesses should hire a reputable interpreter when conducting important negotiations. Not having product literature in Russian will put your company at a disadvantage relative to your European and Asian competitors, not to mention local firms.

## Health

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Western medical care in Moscow can be expensive, difficult to obtain, and not entirely comprehensive. The Embassy strongly urges all travelers who visit Russia to purchase traveler's medical insurance which includes coverage for a medical evacuation.

The U.S. Embassy maintains a list of medical service providers on its website at: <http://moscow.usembassy.gov/medical.html>.

The Department of State updates its Country-Specific Information (CSI) for Russia every six months and includes information on Medical Facilities and Health Information as well as Medical Insurance. Please go to: [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1006.html#medical](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html#medical).

Further information on health matters can be obtained from the Centers for Disease Control and Prevention's international traveler's hotline at 1-877-394-8747, or via the CDC home page at <http://www.cdc.gov>.

## Local Time, Business Hours, and Holidays

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There are 9 time zones across Russia. As of March 2011, daylight savings time is observed year-round. Moscow is eight hours ahead of Eastern Daylight Time and nine hours ahead of Eastern Standard Time. Most companies and offices maintain business hours of 9:00 a.m. - 6:00 p.m. Many shopping centers and supermarkets are open from 10:00 a.m. - 8:00 p.m. Increasingly, major supermarket chains are open 24 hours, 7 days per week.

**Russian Holidays:** The holidays listed on the U.S. Embassy's website are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas (when holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday). Travelers should be aware that little business is done from mid-December through mid-January. The country essentially shuts down for business from New Years to Russian Orthodox Christmas (January 7). Government offices, most businesses and even much of the press close during this period. The period from May 1 through May 9 is similar.

### U.S. Embassy Official Holidays for 2012:

<http://moscow.usembassy.gov/holidays.html>

## Temporary Entry of Materials and Personal Belongings

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Russian customs procedures include entry and exit declaration forms. Foreigners are allowed to export up to \$3,000 without providing a customs declaration or proof of how the money was obtained. Foreigners may also export up to \$10,000 by simply filling out

a customs declaration upon exit. More than \$10,000 can be exported upon proof that it was imported into Russia legally (a stamped customs declaration or proof of a legal bank or wire transfer must be presented to export currency). Failure to follow these procedures can and does result in delays, detentions, confiscation of the currency, and even imprisonment. Lost or stolen customs forms should be reported to the Russian police, and a police report (spravka) should be obtained to present to customs officials upon departure. Often, however, the traveler will find that the lost customs declaration cannot be replaced.

Generally speaking, you should obtain a receipt for all items of value – including caviar – purchased in Russia. Furthermore, old artifacts and antiques must have a certificate indicating that they have no historical value. For further information, call Russian Customs at +7 (495) 265 6628 or 208 2808. Additional information can also be found at <http://eng.customs.ru/>.

Export duties may be imposed on any items that are determined by customs officials at the point of departure to be of commercial use. Items which may appear to have historical or cultural value -- icons, rugs, art, antiques, etc. -- may be taken out of Russia only with prior written approval of the Ministry of Culture and payment of a 100% duty. Occasionally, dealers of quality items may be able to arrange this approval at considerably less cost. Certain items, such as caviar, medications, jewelry, precious/semi-precious stones or metals, and fuel may be exported duty-free in limited amounts only.

Computers, electronic notebooks and related hardware must be presented to customs officials at the airport for scanning at least two hours prior to departure. The Embassy understands that customs officials may require "information storage devices" to be submitted 24 hours before departure. The law is often neglected but can be enforced on a case-by-case basis. Failure to follow the customs regulations may result in penalties ranging from confiscation of the property in question and/or imposition of fines or arrest.

To prevent possible difficulties in taking currency and valuables back out of Russia, travelers are highly advised to ensure that their passenger declaration form is completed and is stamped by customs officials at the point of entry. This customs declaration should be kept and made available when exiting Russia.

#### **Web Resources**

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U.S. Department of State Website: <http://www.travel.state.gov>

Centers for Disease Control and Prevention: <http://www.cdc.gov>

U.S. Embassy Moscow Website: <http://moscow.usembassy.gov>

U.S. Federal Aviation Administration (FAA): <http://www.faa.gov/about/initiatives/iasa>

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## Chapter 9: Contacts, Market Research and Trade Events

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### Contacts

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#### **Russian Government Offices**

##### **Ministry of Economic Development**

Ms. Elvira Nabiullina, Minister

1/3, 1st Tverskaya-Yamskaya Street, Moscow 125993

Tel: +7 (495) 694 0353; 950 9263 (The Americas Dept.), Fax: +7 (499) 251 6965

<http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home>

##### **Ministry of Finance**

Mr. Anton Siluanov, Minister

9 Ilyinka Street, Entrance 1, Moscow 103097

Tel: +7 (495) 987 9101/9130/9140/9868; Fax: +7 (495) 625 0889

<http://www.minfin.ru/en/>

##### **Ministry of Industry and Trade**

Mr. Viktor Khristenko, Minister

7 Kitaigorodskiy Proyezd, Moscow 109074

Tel: +7 (495) 710 4888; Fax: +7 (495) 710 5150 (International Dept.)

<http://www.minpromtorg.gov.ru/eng>

##### **Ministry of Energy**

Mr. Sergey Shmatko, Minister

42 Shchepkina Street, GSP-6, Moscow 107996

Tel: +7 (495) 631 9858; Fax: +7 (495) 631 8364

<http://minenergo.com>

##### **Ministry of Information and Mass Communications**

Mr. Igor Shegolev, Minister

7 Tverskaya Street, Moscow 125375

Tel: +7 (495) 771 8100; Fax: +7 (495) 771 8710

<http://english.minsvyaz.ru/enter.shtml>

##### **Ministry of Transportation**

Mr. Igor Levitin, Minister

1/1 Rozhdestvenka Street, Moscow 109012

Tel: +7 (495) 626 1000, Fax: +7 (495) 626 9128/9038

<http://www.mintrans.ru>



**Ministry of Health and Social Development**

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**Ministry of Regional Development**

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**Federal Customs Service**

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<http://www.gks.ru/wps/wcm/connect/rosstat/rosstatsite.eng/>

**Russian Agency for Patents and Trademarks (Rospatent)**

Dr. Boris Simonov, Director General  
30-1 Berezhkovskaya Nab., G-59, GSP-5, Moscow 123995  
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[http://www1.fips.ru/wps/wcm/connect/content\\_en/en/main+/](http://www1.fips.ru/wps/wcm/connect/content_en/en/main+/)

**Central Bank of Russia**

Mr. Sergey Ignatyev, Chairman  
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### **Selected Regional Governments**

#### **Moscow City Administration**

Sergey Sobyenin, Mayor of the City of Moscow  
13 Tverskaya Street, Moscow 125032  
Tel/Fax: +7 (495) 692 1637  
<http://www.mos.ru>

#### **St. Petersburg City Administration**

Georgiy Poltavchenko, Governor of St. Petersburg  
Igor Divinskiy, Vice Governor  
Committee for External Relations  
Smolny, Nevskiy Prospekt, 176  
St. Petersburg 191060  
Tel: +7 (812) 576 7113; Fax: +7 (812) 576 7633  
<http://www.kvs.spb.ru/?lang=eng>  
<http://eng.gov.spb.ru>

#### **Vladivostok City Administration**

Igor Pushkaryov, Mayor of Vladivostok  
Okeanskiy prospect, Vladivostok 690950  
Tel: +7 (4232) 614 223  
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#### **Chukotsky Autonomous Okrug Government**

Roman Kopin, Governor  
20 Bering Street, Anadyr 689000  
Tel: +7 (42722) 290 86, Fax: +7 (42722) 290 87  
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#### **Kamchatka Oblast Territorial Administration**

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#### **Khabarovsk Territorial Government**

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<http://www.adm.sakhalin.ru/>

**Sverdlovsk Oblast Administration**

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**American Chamber of Commerce in Russia**

**American Chamber of Commerce in Russia**

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<http://www.amcham.ru/spb/>

**Russia-focused Chambers of Commerce and Industry and Trade Associations in the United States**

**U.S.-Russia Business Council**

Edward Verona, President and CEO  
1110 Vermont Avenue, NW, Suite 350, Washington, DC 20005  
Tel: +1 (202) 739 9180, Fax: +1 (202) 659 5920  
<https://www.usrbc.org/>

**American-Russian Chamber of Commerce and Industry**

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**Foundation for Russian-American Economic Cooperation**

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**Mid-Atlantic Russia Business Council**

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**Russian-American Chamber of Commerce**

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<http://www.tpprf.ru/>

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<http://eng.rspp.ru/>

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<http://rabc.ru/en/>

### **U.S. Commercial Service Contacts in Russia**

CS Russia has offices in Moscow and St. Petersburg. For a complete list of services, upcoming events and industry specific contacts, please visit:  
<http://export.gov/russia/index.asp>

#### **Moscow**

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Email: [Moscow.Office.Box@trade.gov](mailto:Moscow.Office.Box@trade.gov)

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St. Petersburg 191028  
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#### **U.S. Embassy**

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Moscow 121099, Russia  
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Tel: +7 (495) 728 5025  
<http://moscow.usembassy.gov>

#### **U.S. Consulate-General - St. Petersburg**

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Tel: +7 (812) 331 2600  
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#### **U.S. Consulate General - Vladivostok**

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#### **U.S. Consulate-General – Yekaterinburg**

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## **Market Research**

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Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, and is free.

## **Trade Events**

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents/index.asp>

<http://export.gov/russia/index.asp>

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## Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully, connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: [www.export.gov](http://www.export.gov)

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: <http://export.gov/russia/index.asp>

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E)**.

**We value your feedback on the format and contents of this report. Please send your comments and recommendations to:** [Market\\_Research\\_Feedback@trade.gov](mailto:Market_Research_Feedback@trade.gov)

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